Minutes from GPF meeting
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Introduction

1. The Global Preparers Forum (GPF) held a meeting in London on 6 November 2014. Martin Edelman n welcomed all members.

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

   (a) IASB Update (paragraphs 3-29)

   (b) IFRS Interpretations Committee Update (paragraphs 30-38)

   (c) Research Activities (paragraphs 39-49)

   (d) Emission Trading Schemes (paragraphs 50-56)

   (e) Equity Method of Accounting (paragraphs 57-62)

   (f) Disclosure Initiative (paragraphs 63-68).

IASB Update (Agenda Paper 1)

3. GPF members noted recently issued Standards and amendments to Standards:

   (a) IFRS 9 *Financial Instruments*;

   (b) amendments to IAS 41 *Agriculture* and IAS 16 *Property, Plant and Equipment* related to accounting for bearer plants;

   (c) amendments to IAS 27 *Separate Financial Statements* introducing an option to use the equity method in separate financial statements; and

   (d) amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* related to accounting for a sale or contribution of assets between an investor and its associate or joint venture.

4. The IASB Technical Directors gave the GPF members an update on the IASB's active projects, as summarised below in paragraphs 5-29.

Insurance Contracts

5. In the first half of the year the IASB focused on three of the targeted areas of the 2013 Exposure Draft:

   (a) unlocking the contractual service margin;

   (b) recognising the effects of changes in discount rates in other comprehensive income (OCI); and

   (c) insurance contract revenue.

6. In the second half of the year the IASB has been discussing transition and contracts with participating features. The IASB is continuing its dialogue with the insurance industry and other interested parties. Its target is to issue the final Standard in 2015.

IFRS for Small and Medium Entities (SMEs)

7. The IASB has conducted a comprehensive review of the IFRS for SMEs. As a result, the IASB has made a tentative decision to introduce an option of using a revaluation model for property, plant and equipment. The lack of such an option was seen as a barrier to adoption of the Standard.

Conceptual Framework

8. The IASB is planning to publish the Exposure Draft in Q1 2015. It has substantially completed its deliberations on the project. The following tentative decisions have been made in the past months on:

   (a) measurement — to categorise measurement bases as historical or current and to treat cash-flow-based measurements as a measurement technique rather than a measurement basis;

   (b) long-term investment — the *Conceptual Framework* contains sufficient tools for the IASB to consider it when making standard-setting decisions; and

   (c) distinction between liabilities and equity — this topic, including challenges in implementing IAS 32 *Financial Instruments:*

Presentation will be discussed further in the Research project *Financial Instruments with Characteristics of Equity*. The IASB plans to publish a Discussion Paper on that research project towards the end of 2015.

Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging

9. The comment period for the Discussion Paper ended on 17 October 2014. The IASB received around 120 comment letters and the staff is currently analysing them.

Rate-regulated Activities

10. In September the IASB issued the Discussion Paper *Reporting the Financial Effects of Rate Regulation*. The comment period will end on 15 January 2015. The IASB is seeking views of interested parties and has started outreach activities. Depending on the feedback, the project may or may not lead to an Exposure Draft.

Disclosure Initiative

11. The Disclosure Initiative is a portfolio of implementation and research projects. The implementation projects are developing narrow-scope amendments to IAS 1 *Presentation of Financial Statements* and IAS 7 *Statement of Cash Flows*. It is planned to publish both final amendments to IAS 1 and an Exposure Draft of amendments to IAS 7 by the end of the year.

12. The research projects cover these areas:

    (a) Principles of disclosure — with the aim to improve disclosure effectiveness and develop principles for presentation and disclosure;

    (b) Materiality — with the aim to see how materiality is applied in practice in IFRS financial statements and to determine whether further guidance is needed from the IASB; and

    (c) Review of disclosures in existing Standards — with the aim to look for elements of duplication and overlap in the Standards-level disclosure requirements.

IFRS Taxonomy

13. At the request of the Trustees, the IASB will now need to approve taxonomy updates when new Standards or amendments are issued.

14. A GPF member expressed concern that such approval may be seen by some regulators as an endorsement of those taxonomy elements. This may lead to a restriction of entities' choices on where and how to disclose information in financial statements.

Research Agenda

15. The aim of research projects is to identify whether there is an issue that needs solving. Depending on the outcome, the issue may or may not be added to the standard-setting agenda.

16. Current high-priority research projects are:

    (a) disclosure initiative;

    (b) discount rates;

    (c) business combinations under common control;

    (d) financial instruments with characteristics of equity; and

    (e) macro hedging.

17. Medium-term research projects are:

    (a) liabilities – amendments to IAS 37;

    (b) performance reporting; and

    (c) emission trading schemes.

18. Longer-term research projects are:

    (a) income taxes;

    (b) post-employment benefits including pensions;

    (c) share-based payments; and

    (d) extractive activities.

19. Next year the IASB will start its second public Agenda Consultation. Part of this process will be a public consultation by way of a Request for Information, towards the end of 2015. This will give the IASB an opportunity to gather information from a wide range of stakeholders, including preparers, on what priorities the IASB should have for its work programme.

Transition Resource Group for Revenue Recognition (TRG)

20. The IASB, jointly with the Financial Accounting Standards Board (FASB) of the US, formed a Transition Resource Group for Revenue Recognition. The purpose of the TRG is to inform the IASB and the FASB about potential implementation issues that could arise when entities implement the new Standard and also to provide stakeholders with an opportunity to learn about the new Standard from others involved with implementation.

21. Stakeholders can submit questions to the TRG if they think that the potential implementation issue indicates that the new Standard can be applied in different ways resulting in diversity in practice and the issue is pervasive. The TRG will not issue any guidance. After each meeting, the IASB and the FASB will determine what action, if any, will be taken on each issue.

22. The TRG has held two meetings and the issues that caused most discussion were:

    (a) application of the principal versus agent considerations to certain types of contracts, especially those for intangible goods or services; and

    (b) criteria for determining whether the nature of a licence of intellectual property is a ‘right to access’, and other topics on the licensing guidance.

23. The TRG website includes a log of all questions submitted to it. In addition, after each meeting, the staff prepare a paper summarising the topics discussed at the meeting and the planned next steps.

24. Some GPF members asked to clarify the mechanism for solving the implementation issues identified. Ian Mackintosh explained that the main purpose of the TRG is to identify whether action is needed. He noted that the TRG discussion itself may clarify the issue and provide insights into how the submitters

should think about applying the Standard. But he also cautioned that IFRS are principle-based standards and as such involve application of judgement.

25. The IASB also formed a Transition Resource Group for Impairment of Financial Instruments (ITG) because the application of the implementation model in the completed version of IFRS 9 *Financial Instruments* involves a high level of judgement and is also linked to many regulatory issues.

Leases

26. The IASB and the FASB continue to work together towards reaching converged positions as far as possible. In August the IASB issued a project update. The Boards have reached a joint position on recognition of leases on the balance sheet but not in respect of recognition in the income statement.

27. The Boards are working towards concluding their deliberations early next year and aim to publish the final Standard in the second half of 2015.

28. A GPF member suggested that the IASB should form a Transition Resource Group on leases because some areas of application, for example, the term 'direct ability to use' in the definition of a lease, can be interpreted differently.

29. Some GPF members raised a concern that the IASB's and the FASB's proposals for accounting for leases in the income statement are significantly different. This would cause difficulties for multinational companies. A GPF member thought that numerical examples of differences in the IASB's and FASB's approaches would be helpful.

IFRS Interpretations Committee Update (Agenda Paper 2)

30. The purpose of this session was to gain input on two topics that were due to be discussed by the IFRS Interpretations Committee (the 'Interpretations Committee') at its meeting in November 2014:

    (a) foreign exchange restrictions in hyperinflationary economies; and

    (b) foreign currency translation of revenue.

31. In addition, the IASB staff updated the GPF on the key findings from the post-implementation review on IFRS 3 *Business Combinations*.

Foreign exchange restrictions in hyperinflationary economies

32. The IASB staff introduced the issue in Agenda Paper 2 in respect of foreign exchange restrictions in hyperinflationary economies, such as found in Venezuela. The IFRS Interpretations Committee identified the key accounting issues as:

    (a) which rate should be used when there are multiple exchange rates?

    (b) should an alternative rate be used when there is a long-term lack of exchangeability?

33. The IASB staff asked GPF members to share their experiences about foreign exchange restrictions in hyperinflationary economies, particularly since the third official exchange rate mechanism ('SICAD II') was introduced in Venezuela earlier this year.

34. A few GPF members made the following comments:

    (a) in their experience, the SICAD II rate was limited to a small volume of transactions in practice;

    (b) in one GPF member's experience, the majority of, but not all, recent transactions that meet the legal criteria are now being approved at the official fixed exchange rate, so the issue is not only about a situation of complete lack of exchangeability, but rather the potential applicability of different rates to different balances of an entity;

    (c) the above points (a) and (b) suggest that some kind of blended or weighted average rate might best reflect the economics of the situation in some cases; and

    (d) judgement should be permitted so that entities can reflect the economics about what they believe is going on with exchangeability. This might require a narrow-scope amendment to IAS 21 to permit the use of an exchange rate other than an official rate for the purposes of consolidating a net investment in a foreign operation, such as operations in Venezuela.

Foreign currency translation of revenue

35. At its November 2014 meeting the Interpretations Committee was due to discuss an issue about which exchange rate should be used to translate revenue in accordance with IAS 21 *The Effect of Changes in Exchange Rates*. The issue to be discussed is about the situation in which an entity enters into a foreign currency sales contract and receives a non-refundable payment in advance of delivery of the goods or services.

36. The IASB staff asked GPF members to share their experiences about:

    (a) how prevalent the issue is;

    (b) which exchange rate is used to recognise revenue in practice, ie:

        (i) the spot rate at the date an enforceable contract is entered into; or

        (ii) the spot rate at the date the advance payment is received (ie on recognition of deferred revenue); or

        (iii) the spot rate at the date the revenue is recognised (ie when the goods or services are transferred to the customer); and

    (c) whether they are expecting practice to change under IFRS 15 *Revenue from Contracts with Customers.*

37. GPF members made the following observations:

    (a) Over half of the GPF members had experience of sales contracts under which payments were received in advance.

    (b) Most of these GPF members record revenue in profit or loss using the exchange rate at the date of recognition of the revenue. The reasons for preferring the use of that rate are:

        (i) economically, it seems more logical as the fair value of the goods or services should be the same regardless of the timing of the payment;

        (ii) the receipt of cash is not a performance or transaction made by the entity selling the goods or services;

        (iii) it is consistent with local requirements; and

        (iv) it is easier to implement from a systems perspective because the exchange rate at the date of recognising revenue is used to translate revenue regardless of the timing of the payment.

(c) Only a few GPF members record revenue using the exchange rate at the date of the advance cash receipt. It was noted that using the rate at that date was consistent with US GAAP and with treating the deferred revenue as a non-monetary item.

(d) One GPF member observed that he was aware of different treatments being used in practice by different industries.

(e) A few members had started to think about the implications of IFRS 15. One member suggested that the treatment might depend upon the reason for the cash advance, for example whether it was primarily for financing or primarily for operational reasons.

Update on post-implementation review of IFRS 3 Business Combinations

38. The GPF were provided with an update on the findings and progress of the IASB's post-implementation review of IFRS 3. The IASB expects to publish a Feedback Statement summarising the findings of the review in Quarter 1 2015.

Research Activities (Agenda Paper 3)

39. GPF members discussed the role of the Research Agenda, the shift towards more research in the preliminary stages of a project and the split between the research projects and the standard-setting projects. The meeting sought the GPF members' opinions on which stage of the process is the most appropriate time for preparers to get involved.

40. Alan Teixeira introduced the topic and he drew attention to the following elements:

(a) The Research programme is separate from the Standard Setting programme. The Research Programme is broad-based and it is much easier to get a topic on to the Research programme than it is get it on to the Standard Setting programme.

(b) The initial research is designed to make sure we all understand the problem and, if a problem exists, whether it is likely that the IASB will be able to develop a cost-beneficial solution. Research findings will be presented to the IASB and the IFRS Advisory Council. It will also be presented to Accounting Standards Advisory Forum (ASAF). The IASB will decide, in the light of the advice it receives, whether to add a project to its Standard Setting programme. Not all projects will proceed to this point. The research could lead to a conclusion that no standard-setting action is needed.

(c) A project is put on the standard setting agenda only if there is space and enough resources to be given to it.

41. In summation, Dr Teixeira noted that from now many of the topics to be discussed with the GPF are likely to come directly from the Research Agenda.

42. In response, one Member raised a concern that in slide 15 of the presentation, depicting the weighting of each type of consultation, preparers appeared to be given a less favourable weighting than other groups involved in financial reporting. If technical decisions are being made at the research stage then it is important to involve preparers as they will be able to provide guidance on operability. There is a difference between pure accounting theory and what is achievable in reality. Also preparers will be able to provide good real-life examples which can be used in analysis.

43. Another Member noted that there may be opportunities for GPF Members to come into the office during the days either side of the GPF meetings to provide guidance and feedback. It could be a new way for GPF Members to participate in the research/ standard setting processes.

44. One Member voiced a concern that topics such as the Principles of Disclosure, Cohesiveness and Cash Flows can be moved from the Research phase to the Standard Setting phase without exposure. It was clarified that they will be exposed during the Standard Setting phase.

45. A member asked if it was the IFRS Advisory Council that decided which projects should proceed to the Standard Setting phase. Dr Teixeira responded that the Trustees have been very clear that the IASB has sole discretion for determining its work programme. Although the due process requirements state that the IFRS must discuss with the Advisory Council plans to move an item from research to

standard setting, the IASB may reach a decision that is different to the advice it receives from the Advisory Council.

46. Dr Teixeira also clarified that the Agenda Consultation Process is not the only time new items are added to the agenda. The Consultation aims to seek input on the overall balance of the research and standard setting agendas.

47. Another Member suggested that the question of timing for involving preparers is not a simple one; as it will change depend on the topic involved. It will be more important to involve preparers at an earlier stage if there is a significant cost or cost benefit consideration associated with the project.

48. A member also emphasised that, although the Constitution focuses on the users, it is very important to include preparers, particularly when there are cost-benefit factors to assess.

49. Martin Edelmann noted that preparers are not always willing to get involved very early in the process as such involvement can require a lot of time and effort. It is important that we strike the right balance. Particularly in the case of cost benefit elements it is important for preparers to be involved early.

Emission Trading Schemes (Agenda Papers 4A and 4B)

50. The IASB staff noted that they were seeking input to help develop a project plan. The staff provided background on the cap and trade type of emissions trading scheme and related accounting issues. Some GPF members indicated that their organisation was subject to an emission trading scheme, and those members all indicated that their scheme is a cap and trade scheme.

51. The GPF members discussed how they currently account for the schemes to which they are subject. A variety of approaches are being used but most focus on the expected net effect of the scheme over the period, rather than looking at individual components separately. Consequently, they stressed that, when looking at how to account for the scheme, the ‘unit of account’ should be the scheme as a whole. They asked the staff not to look to the withdrawn IFRIC 3 *Emission Rights* for a solution, because it focused on the individual components at a point in time. The

resulting accounting treatment did not, they stated, reflect the economic reality of the entity's position under the scheme.

52. The GPF members noted that they generally use forecasts of the expected level of emissions during the period to identify whether they expect to purchase additional allowances or to have excess allowances. If, as is more common, they expect to need additional allowances, a liability is accrued through the period, typically based on the expected cost of the additional allowances required. One GPF member noted that IFRIC 21 *Levies* takes a different approach to recognising a liability and so would need to be considered in the project. (Currently, paragraph 6 of IFRIC 21 notes that liabilities arising from emissions trading schemes are outside the scope of the Interpretation.)

53. For situations in which an entity expects to have surplus allowances at the end of the period, practice is mixed on the measurement basis used for the net surplus. The surplus allowances are generally not considered to be financial instruments for participants in the scheme (that is, emitters), but, instead, are treated as inventory/commodities. One GPF member noted that the allowances are measured at fair value through profit or loss, because they are considered to be available to trade. This treatment is similar to that used by commodity broker-traders in accordance with IAS 2 *Inventories*.

54. Another GPF member measures surplus allowances at cost. This is because the allowances are seen as an input to the production business and are similar to inventories, measured at the lower of cost or net realisable value. This cost could be nil, if the allowances had been received from the government free of charge. No gain would be recognised on the surplus allowances until they are sold. This is similar to Approach 3, outlined in slides 18-19 of Agenda Paper 4A. One member noted that the Accounting Standards Board of Japan has guidance in place that is also similar to Approach 3.

55. Some GPF members suggested that the project should consider not only emitters, but also entities that perform activities to offset emissions, eg planting trees in particular regions to absorb carbon dioxide. Those entities may, in some cases, be able to receive allowances that they can then sell to emitters or use to settle their own emissions obligations.

56. Some members suggested a change to the name of the project to remove ‘trading’ since not all emitters trade the allowances. In addition, there are other mechanisms by which emissions can be reduced and these may need to be considered in future discussions about the scope of the project.

Equity Method of Accounting (Agenda Paper 5)

57. GPF members discussed whether the equity method of accounting, as set out in IAS 28 *Investments in Associates and Joint Ventures*, was preferred to cost or fair value. The majority of GPF members preferred the equity method of accounting to both cost or fair value. One reason is that in a cost model, the income recognised is the dividend income. The dividend income is dependent on the dividend policy and may not reflect the underlying earnings of the investee. In relation to fair value, GPF members noted that the information to estimate the fair value of unquoted interests could be difficult to obtain and therefore calculating fair value might be costly.

58. There was some discussion by GPF members as to whether the equity method of accounting is the appropriate accounting for all associate entities. A GPF member considered that the IASB should include within the scope of the project a review of the meaning of significant influence. It was suggested that in some circumstances, although an entity holds more than 20 per cent of the voting power in the investee, the entity cannot access information to apply the equity method and so in this case the equity method is not appropriate; nevertheless, equity accounting is currently required in such cases unless it can be clearly demonstrated that the investee does not have significant influence.

59. GPF members considered that application of the equity method of accounting was useful where the business model means that operations of the investee are “embedded” within the operations of the investors. In contrast the equity method may not be appropriate if the holding is temporary or not held for the purpose of the business.

60. In the circumstances that the equity method is not considered appropriate, as discussed above, it was suggested that investment should be accounted for as a

financial instrument. However, there was a need to review how to report the results from operations in the income statement of the investor.

61. GPF members discussed difficulties in applying the equity method of accounting and noted that access to information was a concern where the equity method was applied as a one-line consolidation method due to the need to obtain information to determine elimination entries.

62. GPF members discussed the need for elimination entries when applying the equity method of accounting. They noted that where there is joint control or significant influence the ability to generate profits that are not arm's length is limited because prices have to be agreed with the joint venture partner or other investors in the associate. There was a clear view from GPF members that there is a step change in the relationship between control and joint-control or significant influence. In the circumstances of joint-control or significant influence, GPF members consider that prices are negotiated on an arm's length basis.

Disclosure Initiative (Agenda Paper 6)

63. Staff provided an update on the Disclosure Initiative. Questions were raised on the following topics:

    (a) the need to disclose comparative information in the current period. There was a concern that some comparative information is no longer material in the current period.

    (b) a general principle in IFRS to permit information required by IFRS to be placed outside of financial statements but incorporated into the financial statements by cross-reference. Some members advised that identifying the boundaries of the information covered by the audit opinion can be an issue in these circumstances.

    (c) some members questioned the relationship between the work being undertaken on cohesiveness in the Disclosure Initiative and the work previously undertaken in the Financial Statement Presentation project. The staff advised that presentation of line items, totals and subtotals on the statement(s) of profit and loss and other comprehensive income is being looked at in a separate research project on performance reporting. A high-level principle is being considered as part of the Disclosure Initiative.

64. The GPF members discussed two topics:

(a) cohesiveness in presentation and disclosure of financial statements; and

(b) disclosures of cash flow information.

Cohesiveness Principle: Considering cohesiveness in presentation and disclosure of financial statements

65. The topic of discussion was how to make information in financial statements more cohesive. The following points were raised as part of the discussion:

(a) The staff clarified what they meant by the term cohesiveness in financial statements ie information should be linked and relationships between different pieces of information should be highlighted.

(b) There was support for including a communication principle in IFRS to promote the linkage of information in financial statements.

(c) One member said that the topic of cohesiveness of information in financial statements is more suitable as part of the performance reporting project and that the Disclosure Initiative should focus on the basic principles of disclosures and move on to a review of existing standards.

(d) Some members suggested that the IASB should be cautious about whether and how to apply the principle of cohesiveness to financial statements. In their view, being prescriptive in the application of this principle ie requiring entities to classify and group information in a particular way, would not be the best approach. It would involve operational challenges for the preparers and be difficult to apply in practice.

(e) Some members suggested that examples about how an entity could group or classify information to enhance linkage between different pieces of information would be helpful and would help to promote cohesiveness.

Disclosures of cash flow information

66. On the topic of disclosures of cash flow information the GPF members were asked to consider the following questions:

    (a) Should the IASB require the disclosure of some key cash flow measures eg

        (i) cash collected from customers?

        (ii) others?

    (b) Could this cash flow information be disclosed at a reasonable cost?

    (c) What would be the benefits of disclosing these measures?

67. In response the GPF members raised the following points:

    (a) One member advised that they already disclose information about the movement in working capital during the period, both by customer and type of cash flow. This is provided in response to requests from investors.

    (b) Some questioned what components of working capital need to disclosed and how VAT and other taxes should be treated in this context. Some were of the view that the entity should decide how to define and disclose working capital.

    (c) A member commented that it was important that lags in the collection of revenue were understood, especially on long-term business. Another member pointed out that any proposals for additional requirements in this area should have regard to the disclosures introduced by IFRS 15 *Revenue from contracts with customers*.

    (d) Some members questioned how investors will use the additional cash flow information. Staff advised the statement of cash flows is generally used as an alternative perspective on performance eg an indicator of quality of earnings. It is also used to provide information about how working capital is managed or to indicate when trends in the statement of financial position might need to be investigated further.

(e) Most members stated that additional disclosures about cash flows would require systems changes and therefore would be a cost burden. It is therefore important that the IASB articulates the benefit of making the disclosure ie why do investors need this information. There was a suggestion that this would be a good topic for the next joint GPF/CMAC meeting.

68. One member raised the concern that starting the statement of cash flows at operating profit would be complicated to implement. Other members disagreed because they thought using operating profit as the starting point was simpler and reflected how cash flow statements had previously been prepared before implementing the current requirements in IAS 7.

Next meeting

69. The next GPF meeting will be held on 5 March 2015.