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Introduction

1. The Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) held a joint meeting in London on 11 and 12 June 2015.

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

    (a) IASB Update (paragraphs 3-9)

    (b) Conceptual Framework (paragraphs 10-22)

    (c) Provisions, Contingent Liabilities and Contingent Assets (IAS 37) (paragraphs 23-32)

    (d) Pollutant Pricing Mechanisms (paragraphs 33-41)

    (e) Disclosure Initiative (paragraphs 42-46)

    (f) IFRS Interpretations Committee Update (paragraphs 47-57)

    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. This session highlighted the main features of Agenda Paper 1 *IASB Update: Technical activities*.

4. A GPF member asked about the effective date for the forthcoming Leases Standard. The IASB staff clarified that the effective date had yet to be determined by the IASB, but would be determined nearer the date of publication, which is expected to be before the end of the year. This GPF member questioned whether, given that there will be some interaction between the forthcoming Leases Standard and IFRS 15 *Revenue from Contracts with Customers*, the IASB will

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 take this into account in setting the effective date. The staff confirmed that this is expected to be the case.

5. Two GPF members asked about the proposed amendments to IFRS 15, noting that the FASB's proposed amendments are not identical. In particular, and especially to help non-US entities who file in the US ('Foreign Private Issuers'), these members asked whether the IASB's Basis for Conclusions would explain the nature of any such differences. IASB staff explained that the Boards intend to have generally converged outcomes and that the IASB's Basis for Conclusions will indeed explain these differences.

6. One GPF member asked for more information about what the IFRS Advisory Council had said about Integrated Reporting at their last meeting. The staff member explained that the Advisory Council is now recommending that the IASB should take a more active role in this area. In addition, in the forthcoming consultation on the structure and effectiveness of the IFRS Foundation, specific feedback will be requested on this matter.

7. Two CMAC members asked about the status of the forthcoming draft Practice Statement on Materiality. One of them also asked how users would know whether an entity had applied the Practice Statement. The IASB staff explained that the Practice Statement will not be authoritative guidance issued by the IASB. Instead, it is intended as helpful guidance for preparers. The staff also noted that the Practice Statement could not override regulatory requirements in this area.

8. One GPF member asked whether the IASB would be introducing a project similar to the FASB's Simplification Initiative[1]. The staff noted that some of the developments in the Disclosure Initiative could be seen as supporting simplification. More broadly, several of the IASB's projects could be seen as supporting simplification, but had not been formally labelled in this way.

9. One GPF member asked about the output of the Post-implementation Review (PIR) of IFRS 3 *Business Combinations*. The IASB staff explained that two projects had been added to the Research Programme as a result of the PIR. One

[1] The FASB has launched a tightly-focused initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. The projects included in the initiative are intended to improve or maintain the usefulness of the information reported to investors, while reducing cost and complexity in financial reporting.

project will consider the definition of a ‘business’ and the other will consider the financial reporting requirements for goodwill, both on initial recognition and subsequently. The staff noted that there would not be any immediate proposals to change IFRS 3 in these two areas. The research project would collect evidence for the IASB to assess when it decides whether to start active standard-setting projects on these two topics.

Conceptual Framework (Agenda Papers 2A, 2B and 2C)

10. The purpose of this session was to gain feedback from CMAC and GPF members on the proposals in the IASB’s Exposure Draft *Conceptual Framework for Financial Reporting* on two topics:

    (a) reporting financial performance (Agenda Paper 2B); and

    (b) measurement (Agenda Paper 2C).

a. Reporting financial performance

Description of the statement of profit or loss

11. The Exposure Draft describes that statement as the primary, although not the only, source of information about an entity’s financial performance for the period.

    (a) CMAC and GPF members generally supported the description of the statement of profit or loss proposed in the Exposure Draft.

    (b) A few CMAC and GPF members expressed regret that it had not proved possible to produce a more precise description of profit or loss. One GPF member thought that the IASB should make another attempt to define profit or loss, but most CMAC and GPF members agreed that the IASB should not make any further effort to do so.

Reporting items of income and expenses in other comprehensive income (OCI)

12. The Exposure Draft states that income or expenses can only be reported in OCI if doing so would enhance the relevance of profit or loss for the period and the income or expenses arise from changes in a current value measurement.

13. CMAC and GPF members generally agreed with the proposals on the use of OCI, stating that they were a significant improvement on the proposals in the 2013 Discussion Paper. It was also noted by members of both groups that when there is a need to show cost-based information in the statement of profit or loss and current value information in the statement of financial position ('dual measurement'), this is a good reason for reporting items of income or expense in OCI.

14. Overall, they expressed the view that although the proposed guidance on the use of OCI is at a high level, it will provide the IASB with a good basis for making decisions on the use of OCI in the future.

15. However, both CMAC and GPF members expressed some concerns about the use of OCI:

    (a) Some stated that the IASB needs to explain more clearly what it means by 'enhancing the relevance of profit or loss', noting that assessing what is relevant could be very subjective. These members suggested that the relevance of profit or loss could be linked to:

        (i) business activities conducted by the entity (sometimes known as business model); and

        (ii) assessing the prospects for future cash flows and assessing management's stewardship of the entity's resources.

    (b) Several GPF members thought that using OCI makes financial statements more complex and less understandable. They felt that the pressure to use OCI arises mainly from what they believe to be the excessive use of current values. Thus, if current values were used only when there is confidence that they provide the most useful information, remeasurements could be included in profit or loss.

    (c) Several CMAC members expressed the view that OCI should not be used to hide economic volatility and that the IASB needs to consider the risk of inappropriate accounting when developing proposals for the *Conceptual Framework*. More specifically:

(i) some favoured excluding changes in items such as pensions from profit or loss, because analysts are looking for sustainable earnings.

(ii) some favoured including such changes in profit or loss, because they reflect the economic risk of running a business. One suggested that the link between the economic risk and profit or loss should be further explored in the project on performance reporting.

(iii) one suggested that knowing the level of volatility helps to understand what an entity's cost of equity should be. Another suggested that information about volatility is still available even if it is presented in OCI.

(iv) one suggested that the use of non-IFRS performance measures by entities could reduce the need to use OCI to smooth volatility.

(d) One CMAC member noted that reclassifications from OCI to profit or loss (recycling) may be understandable by more sophisticated users of financial statements, but not necessarily by all users. It is important to include all income and expenses in profit or loss, so that users can adequately assess risks.

16. A few CMAC and GPF members suggested that the IASB should publish an analysis of how the proposals in the Exposure Draft would apply to the existing uses of OCI.

b. Measurement

Measurement bases

17. CMAC and GPF members generally supported the proposal that the *Conceptual Framework* should discuss two categories of measurement basis: historical cost and current value. However, some questioned whether the proposed categories capture all measurement bases used in existing IFRS, such as for deferred taxes or pensions. The IASB staff pointed out that these cases could be covered by the Exposure Draft's description of entity-specific current value measurement bases, together with the proposed option for the IASB to customise them (paragraph 6.35 of the Exposure Draft).

Selection of measurement bases

18. CMAC and GPF members generally agreed with the factors to consider when selecting a measurement basis proposed in the Exposure Draft (please refer to [Agenda Paper 2C]() for details).

19. However, some GPF members argued that historical cost should be the preferred category, with the IASB providing the rationale if a current value measurement basis is chosen for an asset or a liability. These members:

    (a) thought that current value should be used only for items such as derivatives; and

    (b) preferred historical cost as a measurement category for other items discussed at the meeting, for example, land, biological assets (trees) or inventories.

20. Most CMAC and GPF members agreed that the selection of a measurement basis should depend partly on how an asset or a liability contributes to future cash flows, and that this should be partly determined by the business activities conducted (sometimes known as business model). Some expressed a view that it is more important to consider what information is provided about financial performance rather than what information is provided about financial position.

21. The following comments were also made about how measurement uncertainty affects the selection of a measurement basis:

    (a) Most CMAC and GPF members thought that when measurement uncertainty is high, an entity should:

        (i) include the best estimate of the measure determined on the most relevant measurement basis on the face of the statement of financial position; and

        (ii) provide in the notes information about dispersion (the range of possible outcomes) and risk.

        One CMAC member stated that if the level of measurement uncertainty is very high, he would prefer a full explanation in the notes rather than an uncertain estimate on the face.

(b) CMAC and GPF members agreed with the proposal in this Exposure Draft that if the level of measurement uncertainty is very high for one measurement basis, a different measurement basis may sometimes provide more relevant information. They discussed whether it was possible to describe more specifically when such a situation might arise and concluded that decisions would have to be made on a case-by-case basis at the Standards level.

Next Steps

22. The Exposure Draft is open for comment until 26 October 2015. The IASB will continue to seek input on its proposals from stakeholders and will consider feedback received as it develops the revised *Conceptual Framework*.

Provisions and contingent liabilities (IAS 37)

23. The objectives of this session were to:

    (a) inform CMAC and GPF members about the purpose and status of the IASB's research project on IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and

    (b) seek views on the current requirements in IAS 37 for recognising liabilities and for measuring a single liability.

a. About the research project (Agenda Paper 3A)

24. The IASB staff explained the purpose and status of the IAS 37 research project.

25. One GPF member asked why the IASB is considering changes to IAS 37, while knowing that constituents had opposed its previous proposals. Had any circumstances changed since the IASB last considered this issue?

26. The IASB staff responded that, when the IASB suspended its project in 2010, it left a number of matters unresolved, and other practice issues had arisen since then (for example regarding IFRIC 21 *Levies*). Furthermore, the proposed changes to the *Conceptual Framework* could have significant implications for

IAS 37, so it seemed a good time to look again at the issues. The staff noted that the new project is not, however, a continuation of the old project. If the evidence collected in this research project persuades the IASB that it should start a project to develop amendments to IAS 37, the IASB would look at the issues afresh. There is no presumption that it would reach the same conclusions this time as it has done in the past. It could be steered to quite different conclusions by feedback on previous proposals to change IAS 37, and by the concepts proposed for the revised *Conceptual Framework*.

b. Recognition criteria (Agenda Paper 3B, Case study 1)

27. At present, IAS 37 requires liabilities to be recognised only if it is probable (ie more likely than not) that an outflow of resources will be required to settle the liability. CMAC and GPF members were asked whether recognising liabilities with a lower probability of future outflows could provide useful information at a cost that does not exceed the benefits.

28. The majority view among the CMAC and GPF members considering this question was that the 'probable outflows' criterion should remain—recognition of liabilities with a lower probability of outflows would not provide useful information. However:

    (a) One GPF member suggested that there should be an exception for liabilities that an entity had been paid to take on: such liabilities should be recognised even if outflows are not probable. In addition, that GPF member thought that the 'probable outflows' criterion should be removed to make the requirements in IAS 37 consistent with those in IFRS 3 *Business Combinations*, which contains no 'probable outflows' criterion.

    (b) One GPF member suggested that when the IASB is considering recognition criteria it should take a holistic approach, considering criteria for assets and liabilities at the same time.

c. Measurement requirements (Agenda Paper 3B, Case study 2)

29. CMAC and GPF members were asked to consider a case study involving a litigation liability with four possible outcomes (win, lose, settle at a lower amount or settle at a higher amount). They were asked whether IAS 37 should specify how an entity should determine the 'best estimate' of the liability and, if so, which measure it should specify.

30. The main views among the CMAC and GPF members was that:

   (a) the most useful information is information disclosed in the notes, especially information that indicates the range of possible outcomes and the potential for any recoveries. CMAC members acknowledged the sensitivities of such information. Nevertheless, they suggested that some factual information could be disclosed to help establish the limits of the range, as follows:

      (i) to help establish the upper limits, an entity might provide information about the amount claimed by the other party, the number of parties that had lodged claims, or the amount of an award by a lower court against which the entity had appealed.

      (ii) to help establish the lower limit of the range, an entity might provide information about any amount that the entity had already offered to settle the claims.

   (b) In cases in which an outflow is probable, IAS 37 should continue to require entities to recognise management's best estimate of the liability (as opposed to recognising nothing or recognising only the minimum amount likely to be paid).

   (c) IAS 37 should continue to allow management to use judgement to arrive at the best estimate of the liability—it should not specify any particular measure. CMAC members did not think that it was a problem that this could mean different entities reporting different amounts (as long as users were given enough information in the notes about the claim).

31. Additional comments about litigation liabilities from CMAC and GPF members were that:

(a) In practice, for much litigation, estimating the expected value of the range of possible outcomes:

(i) would not be practicable, because it would be difficult to assign probabilities to the various possible outcomes.

(ii) could require an entity to disclose information that could be prejudicial.

(iii) would not provide useful information, because the amount recognised for a single matter would be a statistical value that would not equate to the likely settlement amount.

(b) It is more important that the inputs to a measurement are reliable than that entities should be required to determine their 'best estimate' in the same way.

(c) The best estimate for a single liability should be one of the possible outcomes (and not an amount in the range that could never occur).

(d) The expected value (probability-weighted average) of the possible outcomes could be a useful measure of a portfolio of obligations having the same nature.

(e) Allowing entities to measure litigation at the most likely outcome could lead to liabilities being measured at zero, even if it is probable that some outflows will be required. This could happen if many non-zero outcomes are identified, but zero is the most likely individual outcome.

Next steps

32. The IASB discussed progress on the IAS 37 research project at its July 2015 meeting. The IASB staff reported feedback heard from the CMAC and GPF members at that meeting.

Pollutant Pricing Mechanisms (Agenda Papers 4A and 4B)

33. The objective of this session was to gain some insight into how CMAC and GPF members understand the economics of emission trading and similar schemes and what information about the financial effects of the schemes they consider to be most useful. During the session:

    (a) IASB staff provided CMAC and GPF members with an overview of the Pollutant Pricing Mechanisms project.

    (b) A simplified example of a cap-and-trade type of emission trading scheme was used to explore the accounting issues.

34. The specific issues discussed by CMAC and GPF members were as follows:

    (a) whether entities should recognise:

        (i) allowances received free of charge from the government as assets and at the same time a government grant (deferred income) for the same amount; and

        (ii) the obligation to remit to the government the number of allowances that is equivalent to the volume of the specified pollutants that have been emitted as liabilities.

    (b) how entities should measure any assets and liabilities that are recognised; and

    (c) how entities should report any resulting gains and losses.

a. Recognising the allowances and obligation

35. When an entity that is a participant in a cap-and-trade scheme emits the specified pollutants, it creates an obligation to remit to the government the number of allowances that is equivalent to the volume of the specified pollutants that have been emitted. As a result, many CMAC and GPF members suggested that the entity should recognise a liability and related expense to reflect this obligation as the pollutants are emitted.

36. CMAC and GPF members suggested recognising at fair value the allowances received free of charge when an entity receives them. However, members had

mixed views on how an entity should account for the grant recognised for the same amount as the allowances:

(a) Some CMAC and GPF members suggested recognising it in the statement of financial position as deferred income. The entity would then amortise the grant and recognise the grant income in profit or loss on a systematic basis. This could result in the grant income being recognised at the same time as the entity recognises the cost of emitting the specified pollutants as an expense in profit or loss.

(b) Some CMAC and GPF members recommended that it should be recognised initially as a gain in other comprehensive income (OCI). The amount recorded in OCI (including subsequent revaluations) could then be recycled to profit or loss when the entity emits the specified pollutants and recognises the cost through profit or loss. This treatment is similar to that used for cash flow hedge accounting. It reflects a view that if allowances are held for compliance purposes, instead of for trading, they effectively provide a natural hedge against the entity's cost of emitting the specified pollutants. Other members cautioned against the complexity of using OCI.

b. Measuring the allowances

37. Most CMAC and GPF members were comfortable with measuring allowances for entities that trade allowances (but are not participants in the scheme) at fair value through profit or loss. CMAC and GPF members had mixed views about whether participants in a cap-and-trade scheme should measure allowances at fair value or historical cost.

(a) Those opposed to fair value were concerned about including unnecessary volatility in profit or loss when the allowances are not traded and, instead, are used to settle future emission obligations.

(b) Those opposed to historical cost were concerned about the potential loss of relevant information about the entity's management of its resources and liabilities arising from the scheme. For example, changes in the value of allowances could influence management's decision about whether to:

(i) sell the allowances and use the proceeds to invest in a greener technology in order to reduce its emissions and, therefore, its future obligations to submit allowances to the government; or

(ii) continue with the existing business processes and related level of emissions, using the allowances to settle its future obligations to submit allowances to the government.

38. For participants in cap-and-trade schemes, the CMAC and GPF members noted the relationship between allowances held by the entity and the obligation to submit allowances to the government to cover the pollutants that have been, or will be, emitted. They suggested that the allowances held by the entity act as a natural hedge against the obligation (because the obligation is settled by submitting the allowance to the government). In addition, some members stated that it might be preferable to consider the entity's position over the whole commitment period (eg five years), instead of merely looking at each individual compliance year. They felt this was particularly important if allowances received in one compliance year could be carried forward or back to use in different compliance years.

c. Reporting gains and losses

39. Many CMAC and GPF members suggested that no net gain or loss should be recognised in profit or loss unless the entity expects to have a shortfall or surplus of allowances over the compliance year (or, perhaps, commitment period). The general view was that artificial volatility in profit or loss should be avoided when the allowances are expected to be used to settle the emission liability.

(a) A few CMAC and GPF members stated that the entity should not recognise a gain that the entity expects will reverse. This might occur in the following situations:

(i) an entity sells some allowances now but it expects to purchase replacement allowances in future; or

(ii) an entity expects to emit less than the allowances that were granted free of charge during the compliance year but is aware that those expectations might change.

(b) CMAC and GPF members who prefer using OCI suggested that accounting for the gain initially through OCI and later recycling it to profit or loss (when either realised through sale or submitted to the government to settle an emissions liability) may provide information that is more useful for users of the financial statements.

40. Some members noted that an emissions trading scheme introduces a cost of polluting. Over time, the number of allowances allocated free of charge will typically reduce through the commitment period. As a result, the entity will need to take some action to address this reduction. This may be by purchasing additional allowances, or by reducing the level of emissions by investing in cleaner technology, reducing the volume of production, or closing down a production facility. Whatever accounting method may eventually be developed to account for the schemes, CMAC and GPF members generally agreed that it is important to find a way to provide, on a timely basis, some signals to users of financial statements about the resources, costs and risks introduced by the scheme and the entity's actions to mitigate them.

Next steps

41. At this stage, IASB staff are looking at generating thought-provoking ideas and possible approaches to this issue. The staff will then analyse any possible models that the IASB would like to explore in more detail through a Discussion Paper. This analysis will involve comparison to the concepts in the *Conceptual Framework* and to the existing requirements of IFRS.

Disclosure Initiative: Principles of Disclosure—Content of the notes (Agenda Papers 5 and 5A)

42. The IASB staff provided background on the IASB's recent discussions on developing a central set of disclosure objectives for the notes. The staff referred to the IASB's discussions on this topic in April 2015 (Agenda Papers 11E to 11I)

and briefly explained two alternatives that the central disclosure objective could focus on:

(a) topics or items (Approach 1)—this approach would refine the existing practice of how disclosure requirements are set; or

(b) information about applied accounting policies, supplementary information to understand an entity's activities to project future cash flows and stewardship information (Approach 2)—the expectation is that this would result in more holistic disclosure requirements, which would help to streamline information disclosed in financial statements.

43. In this meeting, feedback was sought from CMAC and GPF members on potential benefits and concerns regarding Approach 2. CMAC and GPF members were also asked whether there should be other disclosure objectives for the notes in addition to those listed by the staff in Agenda Paper 5 for this meeting.

44. The resulting discussion highlighted the following points:

(a) Both CMAC and GPF members agreed that the issues that have been raised during outreach about disclosures (such as disclosure overload, lack of linkage of information, inconsistencies and other cross-cutting issues) would be better addressed by streamlining disclosures and making them more effective than by reducing their volume.

(b) Before formulating their conclusions, most CMAC members would want more detail on how the content and structure of the notes would be affected.

(c) Some CMAC and GPF members suggested that a consequence of Approach 2 might be that preparers would restructure their primary financial statements according to their business activities (investing, operating and financing).

(d) Some GPF members stated that restructuring the notes in accordance with Approach 2 was worth the cost, because it gives additional flexibility to preparers to better tell their story.

(e) Some CMAC members argued that Approach 2 was already reflected in the contents of management commentary and that this discussion would be better placed in a project focused on improving the existing guidance on that commentary. Restructuring the notes according to an entity's business activities could result in closer alignment with the existing presentation format of management commentary. Those expressing this view pointed out that this would provide the opportunity to remove some duplication of information within the financial report.

(f) Approach 2 might increase disclosures rather than reduce them. In addition, the work needed to prepare financial statements might increase because of the increased need for judgement to determine what information is useful.

(g) Some CMAC members stated that focusing disclosures in such a way (ie based on activities) might force investors to relearn how to read financial statements and where to extract information from.

45. A few GPF members made the following general comments:

(a) The cost of preparing disclosures should be considered when evaluating which approach to follow.

(b) The IASB should include some additional guidance to help preparers decide what information is to be disclosed.

(c) Additional objectives of notes could be for the set of disclosures to reflect a balanced view of the various notes related to the elements in the financial statement based on the activities of the entity (eg it may be inappropriate to have extensive disclosures about financial instruments, share-based compensation and pension liabilities but little on, say, revenue recognition, for an industrial entity). Furthermore, an objective of the notes could be to cover auditable data only and leave data of a more subjective nature to the management commentary.

(d) It was unclear whether or not the attempt to redraft the existing IFRS guidance as suggested in Appendix A was really helpful and as currently drafted this could potentially lead to more disclosures being required in some areas than is currently the case. In the end a preparer has to review every disclosed element in its financial statements to assess if a note is required based on materiality. This could result in differing amounts of disclosure for each element, which may then not fit into such a table as shown in Slide 10 of the agenda paper.

Next steps

46. Publication of the *Principles of Disclosure* Discussion Paper is planned for Q4 of 2015.

IFRS Interpretations Committee Update (Agenda Paper 6)

47. The purpose of this session was to provide the CMAC and GPF members with an update on the activities of the IFRS Interpretations Committee ('the Interpretations Committee') and to receive input from the members on two topics that will be revisited by the Interpretations Committee later in the year:

    (a) IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*: variable payments on purchase of PP&E and intangible assets; and

    (b) IFRIC 12 *Service Concession Arrangements*: variable payments by operator to grantor.

48. The staff noted that both these issues are linked and had been discussed previously by both the Interpretations Committee and the IASB. However, they had both been put on hold pending further progress on the Leases project.

49. The members received a copy of the work plan for the Interpretations Committee. A brief overview of the activity of the Interpretations Committee was presented by the IASB staff. No issues were noted.

a. Variable payments on purchase of PP&E and intangible assets

50. The IASB staff introduced an issue related to accounting for variable payments in an asset purchase[2]. Feedback from members was sought on the following issues:

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[2] The variable payment in an asset purchase is a purchase price that is expected to change after the acquisition date. Examples of the basis of variability include achieving a specific sales target after purchase date and meeting a specific milestone such as obtaining approval for clinical trials of a pharmaceutical drug.

(a) Initial recognition and measurement: should a liability for the variable payments be recognised on the date of acquisition of the asset, and if so, how should it be measured?

(b) Subsequent adjustments and measurement: to what extent should subsequent adjustments of the liability for the variable payment be recognised, with a corresponding adjustment to the cost of the asset purchased? Alternatively, should those subsequent adjustments be recognised, either wholly or in part, through profit or loss?

51. GPF members shared their experiences and views in this area, which were mixed and reflected the diversity in practice:

(a) One member noted that this issue is one of the biggest challenges facing the pharmaceutical industry. Currently there are different models for accounting for variable payments in a business combination versus an asset purchase.

(i) In the case of a variable payment in a business combination, an amount (based on the probability of success) for the development milestones related to progress of development activities as well as for all sales-based royalties or other variable payments is recognised as part of the initial recording of the intangible asset and as a liability. Any subsequent changes of the liabilities are recognised directly in profit and loss.

(ii) In the case of a variable payment in an asset acquisition, payments based on a milestone related to progress of development are generally not recorded as a liability on the date of purchase of the asset, and are recorded against the cost of the asset when the milestone is achieved. Details of the commitment to make variable payments are disclosed in the notes to the financial statements.

(iii) That member noted a preference for the guidance to be similar for both types of transactions (eg business combinations and asset purchases), but recommended doing this by revisiting the guidance on contingent consideration for business combinations.

(b) Another member noted that there are two different models to account for such payments in the oil and gas sector. These payments are generally not recorded on initial purchase of the asset (because the portion of the contract relating to variable payments is viewed as executory), and are subsequently capitalised in the cost of the asset when incurred. However, if the former owners from whom the asset was purchased are employees and continue to be employed, the payment might be seen as an incentive to the employees, in which case it is recorded through profit or loss.

(c) One member commented that asset purchases are different from business combinations and cautioned against drawing an analogy to business combinations, noting that it might be appropriate to consider the guidance in IAS 37 and the recognition and measurement thresholds applicable to provisions.

(d) One member expressed a preference for following an approach similar to that in the lease accounting proposals for initial recognition (ie recognising a liability for variable payments that are dependent on an index or a rate but not for other variable payments). Another member supported non-recognition of the liability on initial recognition. Both members supported recording subsequent adjustments/payments against the cost of the asset.

52. Comments from CMAC members included the following:

(a) Some indicated a preference for recognising the liability at fair value on initial purchase. Views were mixed on subsequent adjustments to the liability. One member noted that adopting the ‘IFRS 3 approach’ (ie recognising a liability for all variable payments on initial recognition with all subsequent adjustments being recorded through the statement of profit or loss) would result in increased volatility in the statement of profit or loss and might send mixed signals to investors. For example, where the variable payments are linked to revenues, an improved performance and higher revenues would lead to increased costs for the period and an outflow of resources and vice versa.

(b) One member noted that it would be useful to differentiate between expenses covered by the successful operation of the entity (for example, where the variability is based on a percentage of sales) versus those that are not, because these payments could have a negative impact on the company's ability to continue operations. That member also commented that changes to estimates of variable payments would generally also be reflected in the changing value of the asset (if assets are measured using the revaluation model). However, if a revaluation model is not used for assets, the member agreed that a capitalisation approach (to recognise subsequent adjustments/payments) might be appropriate.

b. IFRIC 12 Service Concession Arrangements: variable payments by operator to grantor

53. In a service concession arrangement, operators are sometimes obliged to make variable payments to grantors or third parties. Such payments might include, for example, annual fees payable by the operator to the grantor for the right to operate a concession. The amount of these payments may vary based on inflation. IFRIC 12 does not provide guidance on accounting for such payments and there is diversity in practice. It has been observed that the executory type of accounting is more prevalent (ie recognising the amount when paid as an expense or a contra-revenue).

54. IASB staff presented the Interpretations Committee's preliminary analysis of this issue. Members were asked about their experiences with such payment arrangements and for their thoughts on this preliminary analysis.

55. One member noted that in his experience, these types of payment arrangements are rare and have characteristics similar to annual licence fees that escalate over time.

56. It was noted that there is often a mismatch between the rate that an operator is allowed to charge to customers and escalating fees to the grantor, which creates volatility in the P&L and may not reflect the economics of the arrangement. One member noted that having a mismatch should not be a reason for a different accounting treatment, because mismatches could arise in other industries in which

operating costs might increase based on particular agreements, while amounts charged to customers may not increase at the same rate. Another member noted that the arrangement seemed to have certain features of rate-regulated enterprises.

Next steps

57. The comments received from the GPF and CMAC members will be shared with the Interpretations Committee when it next discusses these issues.

Next meetings

58. The next GPF meeting will be held on 4 November 2015 and the next CMAC meeting will be held on 6 November 2015.