

STAFF PAPER

6 November 2015

Prepared for Capital Markets Advisory Committee Meeting

Paper topic	Follow up on issues discussed in the June 2015 CMAC and GPF meeting		
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This paper has been prepared by staff of the IFRS Foundation for discussion at a public meeting. The views expressed in this paper reflect the individual views of the author[s] and not those of the IASB or the IFRS Foundation. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs.

Purpose of this paper

1. This paper provides a brief, high-level update to the Capital Markets Advisory Committee (CMAC)¹ and Global Preparers Forum (GPF)² on how the staff or the IASB considered the advice received during the joint GPF and CMAC meeting held in June 2015. It is for information only.

¹ Information about the CMAC's past meetings can be found at <http://www.ifrs.org/About-us/IASB/Advisory-bodies/CMAC/past-meetings/Pages/past-meetings.aspx>.

² Information about the GPF's past meetings (including detailed notes from the meetings) can be found at <http://www.ifrs.org/About-us/IASB/Advisory-bodies/GPF/Pages/GPF-meetings.aspx>.

Update on advice received at the June 2015 joint CMAC and GPF meeting

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<p>Proposed changes to the <i>Conceptual Framework</i></p> <p>The IASB staff summarised the proposals in the Exposure Draft <i>Conceptual Framework for Financial Reporting</i> for:</p> <ul style="list-style-type: none"> • the description of the statement of profit or loss and the reporting of income or expense items outside profit or loss (in other comprehensive income - OCI); • measurement bases for assets and liabilities; and • the factors to consider when selecting a measurement basis. 	<ul style="list-style-type: none"> • There was general support for the proposed description of the statement of profit or loss. A few members expressed regret that it had not proved possible to produce a more precise description of profit or loss. • There was general agreement with the proposals on the use of OCI. However, members from both groups expressed some concerns about the phrase ‘enhancing the relevance of profit or loss’, used in the Exposure Draft in describing when the IASB might to decide to require or permit the use of OCI. They also expressed concerns that the use of OCI may make financial statements more complex and less understandable. • There was general support for the proposal to 	<p>The Exposure Draft is open for comment until 25 November 2015.³</p> <p>The feedback from this meeting will be used, with the feedback from comment letters and from other outreach activities, in developing the revised <i>Conceptual Framework</i>.</p>

³ In September, the IASB decided to delay the comment deadline from 26 October to 25 November 2015.

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	<p>discuss two categories of measurement basis (historical cost and current value).</p> <ul style="list-style-type: none"> There was general agreement with the factors to consider when selecting a measurement basis. However, some GPF members argued that historical cost should be the preferred measurement basis. 	
<p>Provisions and contingent liabilities (IAS 37)</p> <p>The staff discussed issues raised about the recognition thresholds and measurement requirements in IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>. More specifically:</p> <ul style="list-style-type: none"> whether entities should recognise liabilities whose existence is certain (or very likely) but whose outcome is 	<p>Recognition – low probabilities of future outflows</p> <p>Most CMAC and GPF members indicated that liabilities within the scope of IAS 37 should be recognised only if the probability of future outflows is greater than 50%. In the view of those members, recognition of liabilities with a lower probability of future outflows would not provide useful information.</p> <p>However, one GPF member suggested that:</p> <ul style="list-style-type: none"> if an entity had been paid to take on liabilities, the liabilities should be recognised even if 	<p>At its Education Session in July 2015, the IASB discussed evidence that staff had gathered on possible problems with IAS 37 and the possible scope of any future project to amend IAS 37. The staff reported the feedback from CMAC and GPF members orally because the agenda paper was prepared before that feedback was received. The IASB is likely to wait until it is close to finalising revisions to the <i>Conceptual</i></p>

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<p>uncertain, if the chance of future outflows is less than 50%; and</p> <ul style="list-style-type: none"> • how entities should measure single obligations that have a range of possible outcomes (eg at the most likely outcome, the probability-weighted average of all possible outcomes, or some other central estimate). 	<p>outflows are not probable; and</p> <ul style="list-style-type: none"> • the ‘probable outflows’ criterion should be removed, for consistency with IFRS 3 <i>Business Combinations</i>. <p>One GPF member suggested that the IASB should take a ‘holistic’ approach, considering recognition criteria for assets and liabilities at the same time.</p> <p>Measurement of obligations with a range of possible outcomes</p> <p>The main views expressed were that:</p> <ul style="list-style-type: none"> • the most useful information about obligations with uncertain outcomes is note disclosures about the range of possible outcomes. Factual information (eg about amounts claimed or amounts already offered in settlement) could help users to establish the limits of the range without prejudicing the entity’s 	<p><i>Framework</i> and has received feedback on its 2015 agenda consultation before making any decisions on whether to add to its work plan a project to amend any aspects of IAS 37.</p>

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	<p>position.</p> <ul style="list-style-type: none"> • IAS 37 should continue to allow management to use judgement to arrive at the best estimate of the expenditure required to settle the liability—it should not specify any particular measure. 	
<p>Pollutant Pricing Mechanisms</p> <p>The staff wanted to gain insight:</p> <ul style="list-style-type: none"> • into how members understand the economics of the emission trading and similar schemes; and • what information about the financial effects of the schemes they consider would be most useful. 	<ul style="list-style-type: none"> • 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 the costs and risks. • Views were mixed about the details of any potential financial reporting model, but most agreed that it should reflect a view that if allowances are held for compliance purposes (that is, for settling the 	<p>In July 2015, the IASB and Accounting Standards Advisory Forum (ASAF)⁴ considered questions similar to those considered by CMAC and GPF members and expressed similar views.</p> <p>In October 2015, the IASB staff explored the issues raised by CMAC, GPF, ASAF and IASB members further with both the ASAF and IASB. The staff will present recommendations to</p>

⁴ More information about ASAF can be found at: <http://www.ifrs.org/About-us/IASB/Advisory-bodies/ASAF/Pages/Accounting-Standards-Advisory-Forum.aspx>.

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	<p>obligation to remit allowances in accordance with the requirements of the scheme), instead of for trading, they effectively provide an economic hedge against the entity's cost of emitting the specified pollutant.</p> <ul style="list-style-type: none"> ○ By reflecting such a view, the model should reduce the risk of creating accounting mismatches that would not faithfully represent the financial effects of the scheme. 	<p>the IASB for a proposed model later in 2015.</p>
<p>Disclosure Initiative</p> <p>The staff summarised the following proposals:</p> <ul style="list-style-type: none"> • description of the role and the content of the notes; and • examples of potential redrafts of existing disclosure guidance and 	<ul style="list-style-type: none"> • Before formulating their conclusions, most CMAC members would want more detail on how the content and structure of the notes would be affected. • Some CMAC and GPF members suggested that a consequence of Approach 2 might be that preparers would restructure their primary financial statements to reflect their business activities (investing, operating and financing). 	<p>The staff will take these comments into account when they draft the <i>Principles of Disclosure</i> Discussion Paper (DP), in particular the need to clearly describe the potential benefits and costs of the alternative approaches. The IASB plans to publish DP in Q1 2016.</p>

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<p>requirements.</p> <p>The staff was looking for feedback:</p> <ul style="list-style-type: none"> • from investors (CMAC members) on whether the staff developed the right objectives for notes disclosure (ie a central disclosure objective focusing on information about accounting policies applied, supplementary information to help users both understand an entity’s activities, and project its future cash flows and to provide information used in assessing stewardship by management— Approach 2 in Agenda Paper 5); • from preparers (GPF members) on whether the proposed changes, especially for more specific 	<ul style="list-style-type: none"> • Some GPF members stated that restructuring the notes in accordance with Approach 2 would be worth the cost, because it gives additional flexibility to preparers to better tell their story. • Some CMAC members argued that Approach 2 was already reflected in the management commentary. Consequently, this discussion would be better placed in a project focused on improving the existing guidance on that commentary. Also this would provide the opportunity to remove some duplication of information within the financial report. • Approach 2 might result in disclosure of information currently not required by IFRS. • Some CMAC members stated that proposed Approach 2 might force investors to relearn how to read financial statements and where to extract information from. 	

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<p>objectives, will help to address concerns regarding current IFRS disclosure requirements; and</p> <ul style="list-style-type: none"> on whether these proposals and illustrated redrafts might affect how preparers communicate information in the notes. 		
<p>IFRS Interpretations Committee</p> <p>The staff summarised the following:</p> <ul style="list-style-type: none"> <i>IAS 16 Property, Plant and Equipment</i> and <i>IAS 38 Intangible Assets</i> – Treatment of variable payments for the separate acquisition of PPE and intangible assets <i>IFRIC 12 Service Concession Arrangements</i> – Treatment of future 	<ul style="list-style-type: none"> CMAC and GPF members shared their views and experiences on accounting for variable payments for asset purchases, which were mixed and reflected the diversity in practice. A few members expressed a preference for developing guidance based on the principles developed in the Leases project for accounting for variable payments in asset purchases (ie where some variable payments are recognised as a liability while others are not). Some other members expressed a 	<p>Feedback received from CMAC and GPF members at this meeting was shared with the IFRS Interpretations Committee at its meeting in September 2015 (Agenda Paper 6).</p> <p>At that meeting, members of the Interpretations Committee expressed mixed views on applying the principles developed in the Leases project for the</p>

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<p>payments by an operator to a grantor</p>	<p>preference for recognising the liability at fair value on initial purchase of the asset, similar to the accounting for contingent consideration in business combinations in IFRS 3 <i>Business Combinations</i>.</p> <ul style="list-style-type: none"> Members from both groups also shared their views and experiences on accounting for payments made by an operator to a grantor noting that these payments had similarities with annual licence payments or with some features of rate-regulated enterprises which should be considered in developing the appropriate accounting for such payments. 	<p>accounting for variable payments for asset purchases. Some members of the Interpretations Committee expressed concerns with applying those principles and noted that lease accounting is a specific accounting regime and the rationale for some of the decisions made in the Leases project may not be directly applicable to asset purchases.</p> <p>The Interpretations Committee directed the staff to provide an analysis of the conceptual arguments underlying the principles in accounting for variable payments in lease contracts and their applicability to accounting for variable payments for asset purchases.</p> <p>Further details on the discussions of the</p>

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		<p>Interpretations Committee can be found in the IFRIC update for September 2015.</p> <p>The staff will present a paper at a future meeting analysing conceptual arguments underlying the principles in accounting for variable payments in lease contracts and their applicability to accounting for variable payments for asset purchases.</p>