Summary note of the Accounting Standards Advisory Forum

Held on 7 and 8 July 2016 at the IASB office, 30 Cannon Street, London.

This note is prepared by staff of the International Accounting Standards Board® (the Board), and summarises the discussion that took place with the Accounting Standards Advisory Forum (ASAF).[1] A full recording of the meeting is available on the IASB® website.

ASAF members attending

Andreas Barckow	Accounting Standards Committee of Germany
Kim Bromfield	South African Financial Reporting Standards Council
Chen Yu	China Accounting Standards Committee
Patrick de Cambourg	Autorité des normes comptables
Rodrigo Andrade de Morais	Group of Latin American Standard-Setters
Alberto Giussani	Organismo Italiano di Contabilità
Jee In Jang	Asian-Oceanian Standard-Setters Group
James Kroeker	Financial Accounting Standards Board
Linda Mezon	Accounting Standards Board of Canada
Yukio Ono	Accounting Standards Board of Japan
Kris Peach/Kimberley Crook	Australian Accounting Standards Board/New Zealand Accounting Standards Board
Andrew Watchman	European Financial Reporting Advisory Group

Conceptual Framework and Financial Instruments with Characteristics of Equity

Concepts to support the liability definition

1. ASAF members' advice was sought on the proposal to refine the proposed concepts supporting the liability definition, Agenda Paper 1A.

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Adding a requirement for a ‘present claim against the entity’

2. Several ASAF members expressed concerns about including a ‘present claim against the entity by another party’ in the concepts supporting the liability definition. In particular:

   (a) It was noted that ‘claim’ is a legal term; requiring another party to have a ‘present claim’ could mean that liabilities are not identified until another party is in a position to enforce a claim against the entity. For example customers have a ‘present claim’ for warranty repairs only when a fault has arisen. In response to these comments, an IASB staff member noted that, in the case of warranty obligations, the customer’s claim against the entity arises when the sale is made. At that point, the customer obtains a right to be compensated if it discovers that it has been sold faulty goods.

   (b) A member noted that adding the supporting concept for a present claim by another party may lead to symmetrical accounting for assets and liabilities. This addition would not be a minor change and the Board should ensure it would not lead to unintended consequences.

   (c) One member was not sure what problem needed to be solved. The member thought that it is already clear that an entity cannot have a liability for future costs, because the obligation has to have arisen from past events.

   (d) A member thought adding a requirement for a present claim would not add much clarity because counterparty is defined so broadly, it could lead to more confusion.

3. One ASAF member agreed with the concept of requiring a ‘present claim’ but expressed concerned that a ‘present claim’ is defined so broadly (through the description of ‘as a result of past events’) it will not prevent the identification of liabilities for future costs that are triggered by past events. These could include liabilities for future legal services and for the costs of producing and auditing the financial statements for the period.

4. In response, an IASB staff member referred to a statement in the paper that fees for future legal services would be included in the measurement of a litigation claim only if incurring those legal fees would be a necessary cost of settling the existing claim by

the counterparty. There is no suggestion that the lawyers who have not yet provided their services have a present claim against the entity.

5. Two ASAF members agreed with including a 'present claim against the entity by another entity'. One member said the focus on 'no practical ability to avoid' does not make it sufficiently clear that an entity does not have a liability for future maintenance; for example, if an entity has a contractual requirement to pay royalties on future earnings, it might not be clear whether there is a present obligation. But it would be clear that the party with the contractual right to receive royalties has a claim against the entity. That member further suggested that guidance was needed to clarify how claims arise under constructive obligations and under what circumstances those claims should be recognised as liabilities.

Reducing the risk of future changes

6. One ASAF member agreed with the refinements proposed to reduce the risk of adding to the *Conceptual Framework* concepts that might have to be withdrawn as a result of the Board research project on Financial Instruments with Characteristics of Equity (FICE).

7. Several ASAF members commented on the staff suggestion that the *Conceptual Framework* should not include the proposed statement (in paragraph 4.30 of the Exposure Draft) that an obligation of an entity to transfer its own equity claims is not an obligation to transfer an economic resource:

   (a) ASAF members disagreeing with the staff's suggestion argued that:

      (i) something is needed in the *Conceptual Framework* to prevent people from concluding that an entity's obligations to transfer its own equity claims are liabilities.

      (ii) the *Conceptual Framework* should clarify whether an entity's own shares are its economic resources.

      (iii) the FICE project will not be constrained by the revised *Conceptual Framework*, and the Board will revisit paragraph 4.30 after that project is complete. Thus, paragraph 4.30 will not pre-empt issues related to the FICE project and there is no rationale for omitting that paragraph.

(b) One ASAF member supported the omission, and agreed that the related issues should be dealt with in the FICE project.

8. An IASB staff member noted that paragraph 4.30 in the Exposure Draft is not in the existing *Conceptual Framework*. So, if the Board were not to include it in the revised *Conceptual Framework*, it would not be deleting an existing concept—it would merely be avoiding adding one in advance of the outcome of the FICE project.

9. One ASAF member expressed concerns about the proposed third essential characteristic of a liability—the potential to require a transfer of economic resources. This member thought that elevating this requirement from the guidance to an essential characteristic would suggest that it is a particularly important aspect of the definition and implies a probability threshold. The ASAF member questioned how replacing the term used to describe the probability threshold is consistent with objective of revising the definition of a liability to remove the threshold given challenges in how "expected" is interpreted. This member was also not sure what the relationship is between the definition of a liability and the three essential characteristics suggested by staff.

10. Other comments by ASAF members included:

    (a) concerns about the use of the term 'no practical ability to avoid a transfer'. It was suggested that the criteria should refer to the principle in paragraph 23 of IAS 32 that a liability exists if an entity has no unconditional right to avoid a transfer.

    (b) a suggestion that, in the absence of concepts for distinguishing between liabilities and equity, the *Conceptual Framework* project should be described as a project defining a claim, rather than defining a liability.

    (c) a suggestion to delete paragraph 4.32, on the grounds that the concepts in paragraph 4.32 should be used for recognition instead of to define a liability, as they seemed more related to the probability of outflows of benefits.

FICE project—economic compulsion

11. ASAF members were asked for their views on the circumstances in which economic compulsion should be considered when classifying claims as liabilities or equity; Agenda Paper 1B.

12. Most ASAF members expressed concerns about considering economic compulsion in distinguishing between liabilities and equity. Particular views include:

    (a) classification should be based only on facts and circumstances at the reporting day, without looking through to the maturity of a financial instrument and trying to predict all possible future outcomes. However, reassessment should occur as conditions change subsequently.

    (b) bifurcating hybrid instruments with two settlement alternatives into liability and equity components, and focusing on the measurement aspects, may be more useful than reclassifying the whole hybrid instrument as a liability or equity.

    (c) 'no practical ability to avoid a transfer' and 'economic compulsion' will have limited effect in distinguishing between liabilities and equity as financial instruments are essentially about contractual rights and obligations. This member thought that a more fundamental question is whether the Board intend to use the economic entity approach or the proprietary approach.

13. A few ASAF members agreed that an entity should consider economic compulsion in distinguishing between liabilities and equity, in particular:

    (a) if the intention is to apply the *Conceptual Framework* consistently, then consideration of economic compulsion is inevitable. However, it was acknowledged that assessing whether an entity is economically compelled requires judgement, and is open to manipulation. An ASAF member suggested that in applying judgement an entity considers the substance of settlement options.

    (b) the phrase 'no practical ability to avoid' is not the equivalent of 'economic compulsion', and hence both should be kept. This member gave an example of an entity that continued to fulfil onerous contracts even though cancelling those contracts would have been more economically favourable.

(c) the consideration of economic compulsion should be restricted to situations that require difficult judgments about future economic situations and consequences.

(d) economic compulsion should be considered not only for financial instruments, but also for non-financial instruments within the scope of other IFRS Standards, such as IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRIC 21 *Levies*.

14. Some ASAF members stated that an entity's subsequent reassessment of the original classification decision is essential for faithful representation. Another ASAF member proposed that reassessment of classification should occur only when it is highly probable that an entity will change how it will settle the instrument.

Recognition—low probability of a flow of economic benefits

15. ASAF members discussed staff suggestions for improving the concepts relating to the recognition of assets and liabilities with a low probability of inflows or outflows of economic benefits (Agenda Paper 1C).

16. All but one ASAF member who commented on the IASB staff suggestions expressed broad support for them. Two members said the suggested drafting was an improvement on the Exposure Draft proposals; one member welcomed the discussion of relevance in the context of performance reporting; and one member particularly welcomed the removal of the word 'very' from paragraph 5.19.

17. However, one ASAF member said he continues to believe that the recognition criteria in the existing *Conceptual Framework* are better than the Exposure Draft proposals. This member expressed concern that more assets and liabilities might be recognised as a result of paragraph 5.13(b) of the Exposure Draft; this paragraph might be interpreted as lowering of the threshold for recognition from 'probable' to a 'not low probability'.

18. ASAF members made the following comments:

(a) the Board should consider whether the refinements will help guide future decisions. A Board member replied that the refined concepts could be useful because they would prompt the Board to consider about probability thresholds and encourage the Board to explain its decisions.

(b) the Board should also consider the effect on the performance statement of changes in estimates of probability. If changes are a result of measurement uncertainty, rather than of a change in the underlying economic phenomenon, recognition of those changes in the performance statement may not provide useful information.

(c) care is needed, perhaps at Standards-level, to ensure that there is no loss of disclosure for items that are not recognised. This is because recognition of an asset or liability typically results in more disclosures than does non-recognition.

19. ASAF members made a number of suggestions for topics that could be added to the guidance. Suggestions included:

(a) a clear definition of 'low probability', because the lack of a definition may cause interpretation issues in some jurisdictions.

(b) a reference in paragraph 5.19(b) to circumstances in which recognition of an asset or liability results in changes in equity.

(c) a reference to the magnitude of the possible inflows or outflows.

(d) a statement that another factor to consider in determining relevance is whether there is a large group of items.

Disclosure Initiative—Materiality Practice Statement

Identification of primary users, their information needs and expectations

20. The purpose of this session was to obtain advice from ASAF members on identifying primary users, their information needs and their expectations in the context of applying materiality when preparing IFRS financial reports. This discussion relates to the Board's proposed IFRS Practice Statement *Application of Materiality to Financial Statements* (the draft Practice Statement).

A two-element approach to identifying material information

21. ASAF members were asked for their views on the two-element approach to materiality, as proposed in Agenda Paper 2A.

22. Some ASAF members supported the approach and said it is helpful and intuitive. However, one ASAF member said the approach does not reflect the behaviour of small entities. The member said smaller entities develop financial reports by adjusting prior reporting period's reports to reflect changes or events during the current reporting period.

23. Some ASAF members expressed concerns about the first element of the two-element approach, including:

    (a) the first element should not principally comprise a quantitative assessment and should include a qualitative assessment, because the *Conceptual Framework* defines materiality as an entity-specific aspect of relevance.

    (b) as the disclosure requirements in IFRS Standards rely more on objectives they lose clearly identifiable requirements. Consequently, the requirement that entities as a first step apply the relevant Standard could become redundant.

24. Some ASAF members provided comments on the second element, including:

    (a) The scope of the second element is very broad. The Board should set boundaries.

    (b) In a litigious environment, the second element would encourage shareholders to file claims against preparers to obtain proprietary information.

    (c) The second element may lead to additional disclosures, rather than addressing disclosure overload.

    (d) The Practice Statement should clearly state how regulatory disclosure requirements are considered when assessing materiality.

25. The staff asked the ASAF members whether it would be helpful to include additional guidance in the Practice Statement on the need to consider potential investors as a subset of the primary users. One ASAF member supported this proposal as it would avoid inappropriate reduction or omission of information from the financial report

when there is a narrow range of existing investors, lenders and other creditors. In response to a question from an ASAF member, the staff clarified that they did not deliberately exclude potential lenders and other creditors from the scope of this proposal.

Identifying subsets of primary users

26. ASAF members were asked for their views on proposed additional guidance that would require management to identify only the major subsets of primary users (and not minor subsets or particular users) when assessing primary users' information needs.

27. Two ASAF members did not support the proposed additional guidance. They said that the distinction between major and minor subsets of primary users is artificial and adds no clarity.

28. The majority of ASAF members expressed more general concerns about an approach based on 'subsets of primary user' including:

    (a) a conflict with the objective of general purpose financial statements, which does not focus on particular types of users.

    (b) a preference for the wording in paragraph OB8 of the *Conceptual Framework* because this states that 'focusing on common information needs *does not prevent* the reporting entity from including additional information that is most useful to a particular subset of primary users', whereas the second element would *require* disclosure of information that meets the needs of major subsets of primary users.

The use of the term 'expectations' of primary users

29. ASAF members were asked whether they agreed with the staff proposal that the term 'expectations' of primary users should be used in the Practice Statement, consistently with its use in the *Conceptual Framework*.

30. Only one ASAF member commented on this proposal. This member considered that the wording of the draft Practice Statement could imply that preparers need to have insight into users' minds, which is not possible.

Materiality judgement process

31. ASAF members were asked to comment on the proposed four-step approach, set out in Agenda Paper 2B, which aims to improve the practicability of the guidance in the draft Practice Statement.

32. Overall ASAF members indicated that the proposed four-step approach was an improvement on the proposals in the draft Practice Statement. Some ASAF members encouraged the staff to develop practical illustrative examples of materiality judgements, focusing on circumstances where judgement is more complex.

33. In addition ASAF members said the proposed four-step approach should:

(a) include consideration of how non-IFRS disclosures requirements (eg those required by securities regulators) affect materiality judgements;

(b) include guidance on the order of the notes to the financial statements using a criterion of new and important developments during the reporting period;

(c) incorporate guidance on aggregation and disaggregation. Provide an illustrative example in which information is assessed to be immaterial in step-two, but is assessed as material when applying step-four and vice versa; and

(d) base the approach on Standards-level disclosure objectives.

General comments

34. ASAF members noted the ASAF agenda paper used the term ‘financial report’ whereas the draft Practice Statement used the term ‘financial statements’. These members expressed support for the term ‘financial statements’ rather than ‘financial report’, as the scope of a ‘financial report’ is unclear. For example, it is unclear whether it includes management commentary or investor presentations. The staff explained that this change aimed to align the terminology in the Practice Statement with the definition of materiality in the *Conceptual Framework*. The staff added they would bring this issue to the Board for consideration.

Primary financial statements

35. The staff presented Agenda Paper 3A, citing the problems identified during initial staff research into the structure and content of the statement(s) of profit or loss and OCI.

36. The staff explained that initial research in the Primary Financial Statements project will focus on defining the scope of the project. To support this work, the staff requested ASAF members' views on the areas of the primary financial statements where it is considered improvement is needed.

37. Many ASAF members supported the project's initial focus on the structure and content of the statement(s) of profit or loss and OCI.

38. ASAF members discussed the suggestion that the Board should explore defining additional subtotals in the statement(s) of profit or loss and OCI because there are problems with the statements(s) of profit or loss and OCI.

    (a) Many ASAF members supported that suggestion. However, some ASAF members said it might be easier to define earnings before financing items and tax (EBIT), rather than defining operating profit. Another ASAF member commented that the Board should consider defining gross margin and earnings before tax because investors commonly use these subtotals.

    (b) Some ASAF members questioned whether requiring standardised subtotals is useful, because preparers can present an adjusted subtotal in addition to any standardised subtotal. One ASAF member said it would help users to make their own adjustments if the standard-setter defines a subtotal and requires disclosure of any adjustments to that subtotal. One Board member stated that investors use Alternative Performance Measures (APMs) when performing detailed analysis. However, when screening companies, investors are not able to spend time analysing APMs of individual companies and rely on standardised IFRS figures. Hence, defining standardised subtotals would be useful for investors for screening companies.

    (c) One ASAF member explained that the presentation of operating profit is already required in their jurisdiction. Their definition of operating profit is revenue minus cost of goods sold and selling, general and administrative expenses. That definition is applicable to any industry in the jurisdiction.

39. Some ASAF members consider that it would be difficult to define APMs. These ASAF members were in favour of providing principles-based guidance for the use of APMs. These members noted that regulators such as IOSCO or ESMA have already issued useful guidance on the use of APMs outside the financial statements. One ASAF member said their user advisory group would like the Board to consider some commonly used APMs such as organic growth.

40. Some ASAF members stated that the Board should consider developing guidance on aggregation and disaggregation in the statement(s) of profit or loss and OCI. One ASAF member thought that elements of cost of goods sold such as materials cost or labour cost may need to be separately presented.

41. Some ASAF members thought that the Board should undertake research on how to distinguish profit or loss from other comprehensive income (OCI), as part of this project. One ASAF member pointed out that many stakeholders have asked for more guidance in this area but the Board has not defined distinction between profit or loss and OCI in its Conceptual Framework project. A Board member responded that one of the goals of the Primary Financial Statements project is to communicate more effectively the performance of an entity, rather than just defining the distinction between profit or loss and OCI. He commented that looking at the structure and content of the statement(s) of profit or loss and OCI may enable the Board to revisit the distinction between profit or loss and OCI in future

42. Only a few ASAF members commented on the statement of cash flows and the statement of financial position. One ASAF member said that items on the statement of financial position should be further disaggregated. One ASAF member commented that stakeholders consider there to be fewer problems with the statement of financial position and statement of cash flows than with the statement(s) of profit or loss and OCI.

43. One ASAF member said that working on the structure and content of the statement(s) of profit or loss and OCI would facilitate digital reporting. This ASAF member considers a chart of accounts would be useful for digital reporting. Another ASAF member stated that digital reporting allows investors to construct their own subtotals,

as long as sufficient disaggregation is provided. Hence, in this member's opinion, work on the structure and content of the statement(s) of profit or loss and OCI is unnecessary for digital reporting. A Board member noted that users currently consume digital data via data aggregators, who use their own structure and define their own subtotals.

Primary financial statements—improving the statement of cash flows

44. This session sought the views of ASAF members on a number of suggestions to improve the statement of cash flows. Those suggestions are included in a draft Discussion Paper (DP) prepared by the staff of the UK Financial Reporting Council (FRC); Agenda Paper 4A. ASAF members were asked to express any concerns regarding the clarity and the completeness of the draft DP.

The objective of the statement of cash flows

45. The draft DP suggests amending the objective of the statement of cash flows to 'assisting an assessment of the entity's liquidity and changes in that liquidity'.

46. Some ASAF members did not support this suggestion. One member commented that a disclosure that has the primary purpose of assisting a liquidity assessment should not resemble the statement of cash flows. In this member's view, such a disclosure should combine information about past cash flows with forward-looking information, including a maturity analysis as currently required by IFRS 7 *Financial Instruments: Disclosures* and other factors. Another member agreed that a liquidity assessment requires forward-looking information.

The classification of cash flows

47. ASAF members had mixed views about the suggestion to define cash flows from operating activities positively, rather than as a default category. An ASAF member stated that defining cash flows from operating activities positively would create a new residual category, which might be misused as a location for presenting some negative cash flows.

48. One ASAF member did not agree with the suggestion included in the draft DP to report cash outflows to acquire property, plant and equipment within operating activities rather than within investing activities. That member questioned whether it

would be appropriate to present cash flows related to assets acquired in a business combination differently from other asset acquisitions.

49. Another ASAF member commented that the draft DP was not clear on whether the proposal would also apply to disposals of property, plant and equipment and whether cash flows resulting from the disposal of investment properties should be treated in the same way as the cash flows from the disposal of property, plant and equipment and intangibles. This member also suggested that the paper should clearly state how cash flows for lease payments should be presented in the statement of cash flows, when applying IFRS 16 *Leases*.

50. One member noted support from users in their jurisdiction for the suggestion in the draft DP to eliminate the options currently available for the classification of interest and dividend cash flows in the statement of cash flows.

Cash equivalents and the management of liquid resources

51. The draft DP suggests that the statement of cash flows should report inflows and outflows of cash, rather than cash and cash equivalents, and that a separate section of the statement of cash flows should report cash flows relating to the management of liquid resources. Liquid resources should be limited to assets that are readily convertible into cash, but should otherwise not be restrictively defined.

52. ASAF members reported mixed views on this suggestion. Some argued that analysts prefer to construct an adjusted statement of cash flows themselves, taking into account their personal view on liquidity. Consequently, analysts do not support replacing the statement of cash flows by a statement of changes in liquidity.

53. One ASAF member asked the staff to clarify the relationship between cash equivalents and liquid resources.

54. Several ASAF members also commented that the current definition of cash and cash equivalents is not clear.

55. Some ASAF members stated that a focus on cash was unhelpful without considering how restricted cash balances would be dealt with.

Reconciliation of operating activities

56. The draft DP suggests introducing a requirement to reconcile a subtotal in the statement of profit or loss that represents operating profit or loss to cash flow from operating activities. The draft DP argues that this reconciliation should be provided in the notes, as the reconciliation does not report cash flows and does not relate to the primary purpose of the statement of cash flows.

57. One member supported the suggestion to include this reconciliation in the notes to the cash flow statement. This member added that using operating profit as the starting point for the reconciliation would be challenging, though, as it is neither defined nor required by IFRS Standards.

58. Another ASAF member said the reconciliation should be included in the statement of cash flows instead, as this option was preferred by investors in the work undertaken by the FRC's Financial Reporting Lab.

Direct or indirect method

59. The draft DP suggests that the direct method cash flow statement should be neither required nor prohibited. It argues that a better focus is to consider what specific disclosures should be required. One ASAF member stated that new empirical evidence supports the importance of the direct method for predicting future cash flows.

General Comments

60. ASAF members made the following general comments:

    (a) a major overhaul of the statement of cash flows should not be a priority. If the Board decides to amend the requirements for the statement of cash flows, it should do so in the context of a complete set of financial statements and not in isolation.

    (b) the DP should include a feedback summary explaining the work that has been done in the past, including the 2010 IASB staff draft developed in the Financial Statement Presentation project.

    (c) there is a view that management are generally too focused on cash flows when explaining their business activities. To counter this view, managers should be reminded why the accrual basis of accounting is important.

(d) there should be a dialogue between the FRC and the IASB staff on this topic. The IASB staff and FRC staff confirmed that there is regular dialogue.

2015 Agenda Consultation —discussion of the draft work plan

61. ASAF members discussed the 2017-2021draft Work Plan. ASAF members generally agreed with the balance and contents of that plan and were broadly supportive of the Board's conclusions.

62. The focus on implementation support was well received. A few additional points were made:

(a) national standard-setters could be the ears and eyes of the Board to help foster consistent application.

(b) translation has a role to play in consistent application of IFRS Standards. Careful selection of words is required, and plain English is important.

(c) project staff should be retained post-issuance to deal with implementation queries and issues.

(d) the Board needs to be clear about what is meant by 'consistent application' in a principles-based system. Different outcomes can be justified by different circumstances or judgments.

63. The theme of better communication was generally supported. Some further comments were made:

(a) Three members suggested that the Board should define profit and loss, OCI, or both. They suggested that this should be a major objective of either the *Conceptual Framework* or the Primary Financial Statements project.

(b) One member pointed out that disclosure requirements can cause change and disruption to systems and processes if individual transactions need to be disaggregated. The member suggested that the Board should not overstate the extent to which a 'period of calm' will arise from the change in the work plan's focus.

(c) Another member noted that in some jurisdictions there are practical obstacles to providing disclosure by cross-reference to information outside of the financial statements, such as the management commentary. These practical obstacles could limit the ability of entities, in those jurisdictions, to use cross-referencing.

(d) One member noted that many disclosure requirements in financial statements are set locally, by local statute or regulators. That member suggested that the Board should not promise to remove requirements that are outside its control.

(e) One member suggested a comprehensive review of disclosures in all IFRS Standards.

64. The FASB representative referred to four topics the FASB intended to propose in an agenda consultation document at the end of July, ie performance reporting, liabilities and equity, pensions and intangibles. The member suggested that the two boards could share their thought processes, especially on liabilities and equity, and on performance reporting, in order to seek common solutions.

65. Individual members commented on the research programme and on some specific projects:

(a) one member stated that stakeholders could not wait many years for answers on topics that were not on the Board's active agenda, or for answers to interpretative questions that were awaiting research by the Board. That member suggested that national standard-setters could begin work on topics not on the active agenda so that the Board would not be starting from scratch when work commenced. The staff explained that one reason why the Board had limited the number of active research projects was to limit the number of projects stakeholders would feel they might need to track. For that reason, if the Board asked one or more national standard-setters to work on a research project, the project would be classified as active.

(b) a few members raised concerns about not taking on a broader project on 'hybrid' pension plans, and perhaps pension plans more broadly, rather than just the narrow project in the research pipeline. One member suggested that the Board should carry out a post-implementation review of the amendment made in 2011 to IAS 19 *Employee Benefits*.

(c) dynamic risk measurement was not a priority for several members, particularly at this time. Some thought that it would be addressed more effectively after IFRS 9 *Financial Instruments* had been applied for some time.

(d) one member was disappointed that the work plan and research pipeline included no project on intangible assets and thought it was becoming increasingly problematic that there was a large, and growing, gap between equity recognised in financial statements and market capitalisation. Another member suggested a project on development costs.

(e) a few members queried how the deferral of the effective date of amendments made in September 2014 to IAS 28 *Investments in Associates and Joint Ventures* and IFRS 10 *Consolidated Financial Statements* would now be resolved given the extended time line for work on the equity method, a project that is now in the research pipeline and not on the active work plan.

(f) one member thought that foreign exchange rates should be in the research pipeline.

(g) another suggested that some stakeholders might be surprised that the Board does not plan further research on discount rates.

66. Some ASAF members suggested the Board consider clarifying some points in the feedback statement on the agenda consultation, including:

(a) what the Board means by 'research', ie that the Board seeks evidence and is not primarily engaged in research for academic reasons; and

(b) how the IFRS® Taxonomy interacts with the Board's standard-setting, for example specifying whether work on the Taxonomy should influence Standards or should follow Standards.

67. One member suggested that the Board consider how it will monitor whether its activities (including implementation support) are successful, and whether there is some way of linking this work to improved quality of financial reporting.

68. A few members expressed concern that the Trustees had extended the interval between future agenda consultations from 3 to 5 years given that circumstances are

likely to change in unpredictable ways over such a long period. The staff emphasised that the draft work plan was a snapshot of the Board's plan at present and that the Board would reassess its priorities if circumstances changed.

Quantitative study on goodwill and impairment

69. The EFRAG and ASBJ staff paper analysed quantitative data to facilitate the Board's discussions related to the accounting for goodwill. It analysed trends in goodwill, intangible assets and impairment charges over ten years. The analysis focused on data from the USA, Europe, Japan and Australia.

70. ASAF members were asked for their views on the quantitative study.

71. ASAF members had the following questions and feedback on the quantitative study:

    (a) some members emphasised that the objective and research question need to be specified clearly. They suggested mentioning that the original objective of the analysis was to look for evidence of whether a goodwill 'bubble' was forming.

    (b) some members questioned whether the study provides sufficient information about internally generated intangible assets. They stated that such information would be helpful as the importance of internally-generated intangibles is increasing, with the rise in the digital economy.

    (c) some members suggested that the financial industry was one of the industries most likely to be affected by a goodwill bubble and questioned its exclusion from the data.

    (d) some members stated there is no obvious goodwill bubble during the periods studied. This could be due to the lack of expensive acquisitions during that period.

    (e) some members highlighted that it is difficult to analyse goodwill on an average basis because goodwill is concentrated among a small number of companies. Some members therefore suggested reviewing goodwill on a case by case basis.

    (f) some members expressed concern about assessing changes in goodwill balances by looking at changes in the ratio of goodwill to net assets over time. These members were concerned that the ratio of goodwill to net assets includes goodwill in both the numerator and the denominator. They suggested using the following comparisons rather than 'net assets' to better analyse trends in goodwill balances:

(i) using gross assets as the denominator instead of net assets; or

(ii) excluding goodwill from the denominator, for example using tangible assets rather than net assets.

(g) some members supported further analysis of goodwill by industry.

(h) some members noted that the data was useful to the discussions in this project, but that it is difficult to draw definitive conclusions because of the inherent data limitations.

72. The ASBJ and EFRAG representatives concluded by saying they are continuing the joint project and research on goodwill and impairment, while considering both the method and costs.

73. IASB staff noted that they are continuing their research on goodwill and impairment and are looking at a number of different approaches to addressing the concerns about the effectiveness and cost of the current goodwill and impairment requirements.

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

74. ASAF members discussed Agenda Paper 7 on the draft amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

75. Nearly all ASAF members concurred that the Board should proceed with publishing the ED because, in their view, the amendments would clarify IAS 8. One ASAF member said that draft amendments would not provide enough clarity.

76. Members discussed whether the amendments should provide more examples of changes in accounting policies and estimates in IAS 8. Paragraph 32 of IAS 8 already includes some examples of accounting estimates. Two ASAF members said it would be useful for the Board to provide educational material on IAS 8 instead of adding examples to IAS 8.

77. Two ASAF members recommended testing some practical examples against the amended wording of IAS 8. The staff said it had already performed some informal testing and would continue to do so. An ASAF member suggested testing an example relating to the assessment of changes in the credit risk of financial assets.

78. Some ASAF members agreed that the draft amendments would provide more clarity, but stated that it was still difficult to conclude on the classification of a change in the cost formula for interchangeable inventories in IAS 2 *Inventories* (ie from FIFO to Weighted Average Cost, or vice versa). The staff responded that because of the unique nature of this particular issue, it would not be possible to develop clearer general guidance that would make it easier to resolve this issue, and that this particular issue could not be used as an example to illustrate general principles.

79. The staff suggested that one possible way forward would be to amend IAS 2 to confirm explicitly that a change from one of those cost formulas to the other is a change of accounting policy. Nevertheless, the staff suggested that changes in the cost formula are unlikely to be common, and so amending IAS 2 might not be necessary. An ASAF member noted that wording in the disclosure requirements of IAS 2 indicates that a change in the cost formula is a change in accounting policy, but that member noted that this reasoning could be lost if that wording were ever to be changed.

80. On the wording of the draft amendments:

(a) ASAF members were generally in overall agreement with the changes to the definition of accounting policies. Some ASAF members suggested that referring in the definition only to ‘principles’ would perhaps make the definition too narrow.

(b) There were few comments on the draft definition of a change in accounting estimate. One ASAF member said that instead of referring to ‘assets and liabilities’, the definition should refer more broadly to ‘items in financial statements’.

81. Most of the discussion on wording revolved around the issue of whether to introduce a threshold (ie ‘equally or more representative’) that entities would have to pass to justify changes in estimation techniques and valuation techniques. Many ASAF members think that such a threshold would provide no benefits to users of financial

statements and would impose unjustifiable burdens and costs on preparers of financial statements, especially given the fact that changes in estimation techniques and valuation techniques often happen simultaneously with other changes in estimates. Some ASAF members suggested it would be sufficient to clarify that the revised technique needs to meet the objective set out in the relevant Standard. They think that this would, for example, allow for situations where a preparer, justifiably, decides to adopt a simpler or less costly technique that still provides a measurement that is good enough to meet the objective.

82. A Board member suggested that the best way to handle this issue might be to set thresholds in individual Standards as, for example, IFRS 13 *Fair Value Measurement* does.

83. One ASAF member noted that IAS 8 already states that changes in accounting estimates that result from new information (or some other new development) should be disclosed and expressed the view that this is sufficient.

84. Another ASAF member turned to the topic of calibrating estimation techniques and valuation techniques. That member queried whether the amendments should discuss whether recalibration constitutes a change in estimation techniques or valuation techniques.

85. A Board member pointed out that changes in estimation techniques and valuation techniques were common in practice, and wondered whether the underlying issue might be a need for more transparency and discipline in reporting changes in these policies.

86. On the publication process, ASAF members supported the idea of publishing the ED simultaneously with another consultation document. They recommended packaging the ED with the Annual Improvements ED but that the improvement is too significant to be classified as an annual improvement.

87. ASAF members identified some other areas of potential improvements to IAS 8. One ASAF member believed that IAS 8 needed a stronger general principle that would say "never restate except for changes in accounting policies". Another ASAF member questioned whether it was appropriate to retain the existing guidance in IAS 8 that says 'when it is difficult to distinguish a change in an accounting policy from a

change in an accounting estimate, the change is treated as a change in an accounting estimate'.

Project updates and agenda planning

88. The IASB staff presented an update of the IASB technical projects, together with a summary of how the Board had used the advice received from the ASAF from the previous meeting. The IASB staff also presented topics for inclusion on the agenda of the September 2016 ASAF meeting.

89. An ASAF member suggested some changes to the September 2016 proposed agenda. It was agreed a revised draft agenda would be circulated to members for comment.