

STAFF PAPER

15-16 June 2016

Prepared for joint Capital Markets Advisory Committee and Global Preparers Forum meeting

Project	IASB Update		
Paper topic	Follow up on issues discussed at the March 2016 GPF meeting		
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This paper has been prepared for discussion at a public meeting of the Capital Markets Advisory Committee and the Global Preparers Forum. The views expressed in this paper do not represent the views of the International Accounting Standards Board® (“the Board”) or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB *Update*.

The purpose of the session

1. This paper provides a brief, high-level update to the Global Preparers Forum (GPF)¹ on how the staff of the International Accounting Standards Board® (“the Board”) considered the advice received during the GPF meeting held in March 2016. It is for information only.

¹ 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>.

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/GPF/>

Update on advice received at the March 2016 GPF meeting

Topic	Summary of GPF views presented	Action taken / next steps
<p>Disclosure Initiative: <i>Principles of Disclosure Discussion Paper (DP)</i> – approaches to drafting disclosure guidance</p> <p>The staff sought feedback on possible approaches to the Board’s drafting of its disclosure guidance that is in the DP.</p>	<p>All members supported the general direction of the approaches to drafting disclosure requirements and the concepts being discussed. However, some members were sceptical that these proposals would have much impact in practice. These members stressed that a corresponding change in the behaviour of other stakeholders in financial reporting would also be needed, especially by regulators and auditors.</p> <p>A few members made suggestions about how the Board could:</p> <ul style="list-style-type: none"> • improve the drafting of the disclosure requirements; and • clearly distinguish between the summary disclosures and the additional disclosures described in the two-step method proposed in the paper presented. 	<p>The Board plans to publish the DP in Q3 2016 and the comments made during the meeting will be considered as a part of the feedback on the DP.</p>
<p>Preparers’ experience with improving effectiveness of disclosures</p>	<p>GPF members explained some of the specific measures they have already taken in restructuring their financial statements, including:</p>	<p>The Board will consider the points raised when further</p>

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<p>GPF members were asked to share their experience of improving and rationalising disclosures and removing unnecessary disclosures.</p> <p>Staff also asked for:</p> <ul style="list-style-type: none"> • Feedback on the steps taken so far by the Board in helping to improve disclosure requirements. • Information about whether there are any further steps that the Board should consider in the Disclosure Initiative. 	<ul style="list-style-type: none"> • grouping disclosures together for easier reference. • providing segment-level information about the primary financial statement line items in both the primary statements and in the notes • reassessing annually, with the help of the auditors, whether disclosures could be omitted from the financial statements because they do not provide useful information to investors; and • highlighting at the very beginning of the disclosures section of the financial statements the accounting policies that the entity views as critical. <p>GPF members also cited a number of instances in which the current drafting of the disclosure requirements in IFRS Standards made it challenging for preparers to make disclosures more effective.</p>	<p>developing the proposals in the Principles of Disclosure project.</p>

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<p>Research project IFRS 2 <i>Share-based Payment</i> – Next steps</p> <p>The staff discussed with the GPF members their views on whether the Board should move this research project to the Development stage of research or discontinue it.</p>	<p>In summary, GPF members seemed to agree with the findings of the staff’s research. They further believed that the Board should not perform further research and should not reconsider the <i>grant date</i> fair value measurement model, for the following main reasons:</p> <ul style="list-style-type: none"> (a) most implementation issues have now been resolved; (b) replacing the <i>grant date</i> fair value measurement model with the <i>current date</i> fair value measurement model would lead to increased volatility of recognised share-based payment expenses; and (c) they are now used to the Standard’s requirements. 	<p>This summary of feedback received from GPF members was shared with the Board in AP16 for its May 2016 meeting². At that meeting, the Board decided:</p> <ul style="list-style-type: none"> (a) not to perform any further research on this topic; and (b) that there is no need to publish a formal research paper or discussion paper summarising the research performed

² The paper could be found at <http://www.ifrs.org/Meetings/MeetingDocs/IASB/2016/May/AP16-Share-based-Payment.pdf>

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		in this project. The staff will consider how best to make the work performed visible and retrievable.
<p>Improvements to the impairment requirements in IAS 36</p> <p>The staff discussed the implications of suggestion to consider requiring companies to provide more information supporting the carrying amount of goodwill such as:</p> <ul style="list-style-type: none"> • the key performance targets supporting the purchase price paid 	<p>Nearly all GPF members expressed some concerns about preparing the suggested disclosures such as:</p> <ul style="list-style-type: none"> • lack of information (or high cost of obtaining it); • the information is based on assumptions that will be difficult to measure and audit; and • the objective of the disclosure is not clear or the information could be misleading, or could reveal too much to competitors. <p>However one member felt that something should be done in this</p>	<p>At the May 2016 meeting the staff provided a summary of the feedback received from GPF members in Agenda Paper 18A³.</p> <p>The Board will continue its discussions about improvements to the impairment requirements at its</p>

³ The paper could be found at <http://www.ifrs.org/Meetings/MeetingDocs/IASB/2016/May/AP18A-Goodwill-and-Impairment.pdf>

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<p>(for example revenue targets, operating margins, cost savings etc),</p> <ul style="list-style-type: none"> • a basic comparison of actual performance against the expected targets in the early years following acquisition. 	<p>area to improve management stewardship and the information provided to users of financial statement. That member encouraged the staff to continue to pursue this suggestion, and in particular to keep asking companies how they track whether an acquisition has been successful.</p>	<p>June 2016 meeting.</p>
<p>Rate-regulated Activities</p> <p>The staff discussed issues around the meaning of ‘performance’ when constructing assets for use in a rate-regulated business and related issues about recognition and measurement connected to tangible assets, government grants and assets contributed by customers.</p>	<p>Some GPF members highlighted the following as important factors to be considered when deciding an appropriate accounting treatment of the rate-regulated activities:</p> <ul style="list-style-type: none"> • who is carrying the risks, such as a demand risk; • similarities and differences seen in practice between rate-regulated transactions and similar transactions that are not subject to rate regulation; • the identification of ‘the customer’; • whether the rate regulation provides the entity with ‘exclusivity’ of rights; and • the period over which the rate regulation obliges the entity 	<p>The staff are considering how to reflect the GPF members’ comments, together with those received from other stakeholders, into an accounting model that is being developed. The objective of that model is to more fairly present the entity’s rights, obligations and performance, using the concepts and</p>

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	<p>to provide the rate-regulated services.</p> <p>GPF members suggested that the entity’s revenue-generating activity is the delivery of water services and the construction of the water treatment plant is a condition of the regulatory agreement.</p> <p>The rate regulation supports the reimbursement of the construction costs, and an accounting model similar to the financial asset model of IFRIC 12 <i>Service Concession Arrangements</i> may be relevant to consider.</p>	<p>principles contained in the Board’s proposed revisions to the <i>Conceptual Framework</i> and in existing Standards, especially IFRS 15 <i>Revenue from Contracts with Customers</i>.</p>