STAFF PAPER

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Prepared for the Global Preparers Forum meeting

Project	**IASB update**
Paper topic	Follow up on issues discussed at the June 2017 Joint Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) meeting

CONTACT(S) Izabela Ruta iruta@ifrs.org +44 (0)20 7246 6957

The purpose of the session

1. This paper provides a brief, high-level update to the Global Preparers Forum (GPF)[1] on how the International Accounting Standards Board (Board) or the staff considered the advice received during the joint meeting of the Capital Markets Advisory Committee (CMAC) and GPF held in June 2017. 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/groups/global-preparers-forum/#meetings.

Update on advice received at the June 2017 CMAC and GPF joint meeting

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Discussion Paper *Principles of Disclosure* Staff asked for feedback on: • location of IFRS information outside the financial statements and the location of non-IFRS information within the financial statements (section 4 of the DP); • which accounting policies should be disclosed in the financial statements (section 6 of the DP); and • centralised disclosure objectives to provide a	***Location of information*** Some CMAC members said that the location of information matters, particularly if the location affects whether that information is audited. Most CMAC members preferred to have access to information within a single reporting package on the same terms as the financial statements and at the same time. Some CMAC members said that investors generally expect all material information required by IFRS Standards to be placed within the financial statements and would not support such information being placed outside the financial statements. They would also expect material 'non-IFRS information' to be included in the financial statements. However, a few GPF and CMAC members were concerned that allowing the latter could undermine the credibility or the quality of the financial statements. They were also concerned about whether this non-IFRS information would be audited.	The comment period for the Discussion Paper ended on 2 October 2017. Feedback from this meeting will be included in the summary of feedback on the Discussion Paper provided to Board. The Board's re-deliberations are expected to take place in 2018.

[2] For the details on the feedback received from CMAC and GPF, please follow this link: http://www.ifrs.org/news-and-events/calendar/2017/june/cmac-and-gpf/

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framework for developing more unified disclosure objectives and requirements in IFRS Standards (section 7 and 8 of the DP).	Some CMAC members said that duplication of information does not provide users with additional value. ***Disclosure of accounting policies*** CMAC and GPF members agreed that when an entity considers disclosure of accounting policies, it should take into account the needs of the users of the financial statements. They also stated that accounting policies should only be disclosed for material items, transactions and events. Some CMAC and GPF members argued that entities should only be required to disclose accounting policies that deal with material items, transactions and events and that: (i) have changed during a reporting period; (ii) are chosen from alternatives allowed in IFRS Standards; (iii) are developed in the absence of an IFRS Standard; and (iv) require an entity to make significant judgements and/or assumptions. Both CMAC and GPF members agreed that management is best placed to decide on the most appropriate location for accounting policy disclosures within the financial statements and whether to include information about significant judgements and assumptions next to the relevant accounting	

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	policy disclosures. ***Centralised disclosure objectives*** Both CMAC and GPF members supported the Board's approach to developing disclosure requirements in recent IFRS Standards whereby overall disclosure objectives are supported by detailed disclosure requirements. Some GPF members said that prescriptive disclosure requirements do not prevent preparers from disclosing relevant information as long as guidance reinforcing the application of materiality is provided. Most CMAC members disagreed with developing centralised disclosure objectives on the basis of an entity's activities. These members said that the Board should refine its current approach for drafting disclosure requirements to allow entities to apply more judgement when disclosing information. Some CMAC members and a few GPF members stated that they prefer the structure of the notes to reflect an entity's activities. However, they commented that this can already be achieved by appropriate organisation of the information in the notes.	

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	Some GPF and CMAC members were not sure how effective the approach for drafting disclosure objectives and requirements developed by the staff of the New Zealand Accounting Standards Board would be in practice.	
Primary Financial Statements Staff asked for feedback on staff proposals to introduce two subtotals in the statement(s) of financial performance: • earnings before finance income/expenses; and • a management performance measure.	Many CMAC and GPF members supported the general direction of the staff proposals. ***Earnings before finance income/expenses and tax (EBIT)*** Many CMAC and GPF members supported requiring an EBIT subtotal in the statement(s) of financial performance and agreed that its objective should be to provide a comparable starting point for users' analysis. Many members also agreed that a principle-based approach to defining finance income/expenses (ie the 'I' in EBIT) in terms of an entity's capital structure would be appropriate. However, many members observed that introducing a comparable EBIT subtotal was a difficult undertaking for the Board and some had reservations about whether it would be successful, particularly across different industries. CMAC and GPF members commented on the staff proposal to define capital structure as 'equity, assets and liabilities arising from financing	The staff reported the feedback received from CMAC and GPF members at the June 2017 Board meeting, when the Board discussed the staff proposals to introduce EBIT and management performance measure subtotals. The summary of the June 2017 CMAC and GPF discussion on Primary Financial Statements is included in Agenda Paper 21[3] for the September 2017 Board meeting, when the

[3] Agenda Paper could be found here: http://www.ifrs.org/-/media/feature/meetings/2017/september/iasb/pfs/ap21-primary-financial-statements.pdf

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	activities, and cash and cash equivalents': (a) CMAC and GPF members debated whether decommissioning liabilities and net defined benefit liabilities are part of an entity's capital structure. (b) some CMAC and GPF members said that using cash and cash equivalents as a proxy for cash and temporary investments of excess cash in the definition of capital structure was too narrow. For example, some CMAC and GPF members observed that other assets are held for the specific purpose of settling liabilities. One break-out group explicitly supported the staff proposal to exclude all interest expenses from EBIT, even when the interest expense does not relate to the entity's capital structure. A few GPF members questioned whether the benefits of an EBIT subtotal would outweigh the costs preparers would incur in changing their reporting systems. Some CMAC and GPF members highlighted issues that the Board would have to address when defining EBIT: (a) the presentation of EBIT for financial institutions and groups that	Board continued its discussions on targeted improvements to the statement(s) of financial performance.

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	have captive finance subsidiaries; and (b) the presentation of the share of the profit or loss of associates and joint ventures. ***Management performance measure*** Three of the four break-out groups supported the proposal to present a management performance measure in the statement(s) of financial performance. CMAC and GPF members from those groups supported the discipline (including bringing the measure within the scope of the audit), transparency, consistency over time and additional disclosures (eg the proposed historical summary of infrequent items) that would be required for management performance measures under the staff proposal. However, CMAC and GPF members from one break-out group opposed the presentation of a management performance measure in the statement(s) of financial performance. They argued that management-defined (non-IFRS) measures do not belong in IFRS financial statements and that the Board should not try to regulate these measures. This group supported more disaggregation above EBIT in the statement(s) of financial performance, including separate presentation of infrequent items and better	

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	disaggregation by nature of expenses. Many of the CMAC and GPF members who supported the presentation of a management performance measure in the statement(s) of financial performance agreed with staff suggestions that the Board should not place too many constraints on what can be excluded from the management performance measure —rather the management performance measure should be 'self-constrained' by requiring entities to: (a) define their management performance measure in the financial statements; and (b) apply this definition consistently over time. Some CMAC and GPF members were concerned that the term 'infrequent' could be interpreted too narrowly as 'one-off' items. In their view, volatile or 'lumpy' items should also be separately presented, to help investors make better forecasts.	

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IFRS 13 *Fair Value Measurement* Staff asked for feedback to gain a deeper understanding of both users' and preparers' perspectives on the effectiveness of fair value measurement disclosures.	CMAC and GPF members discussed users' and preparers' perspectives on the usefulness of fair value measurement disclosures, including usefulness, cost and possible improvements to fair value measurement disclosures. ***Usefulness of information*** CMAC and GPF members found tables on reconciliation from opening to closing balances and sensitivity analysis for Level 3 measurements most helpful, as well as the narrative description of the valuation techniques Some CMAC and GPF members described the narrative included in disclosures, for example describing valuation techniques, to be boilerplate, with narrative disclosures in general described as long and unsuited for an average user of financial statements. ***Cost of providing information*** GPF members indicated that the concern is not so much about the cost of providing the fair value disclosures, but the risk that disclosure of assumptions and sensitivities for example could lead to lawsuits for an entity or show commercially sensitive information, for example for assets held for sale. Some CMAC and GPF members also questioned if any cost is justified	The staff will consider the feedback received as it undertakes further outreach activities during phase 2 of the PIR, and will incorporate it in the feedback provided to the Board after the RFI consultation period ends on 22 September 2017.

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	when preparing fair value disclosures for property, plant and equipment as fair value disclosure for these types of assets are not seen as useful. ***Possible improvements*** CMAC and GPF members thought that entities could improve the presentation of information about fair value measurement by using more tables and possibly even graphs, focussing on material items. The members thought that guidance on better communication in Principles of Disclosures project might help. Some CMAC and GPF members indicated that there are not enough Level 2 disclosures and that this would be more helpful in their analysis. Some CMAC members suggested to improve disclosures on sensitivity analysis to provide more information about the range of values that was possible, which would help users understand where in the range is the value the entity chose.	

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Impairment testing of goodwill Staff asked for feedback on: • information about subsequent performance of an acquisition by way of disclosing (a) key performance targets set at the time of acquisition; and (b) actual performance achieved vis-à-vis the targets; and • testing goodwill for impairment only when there are indicators that goodwill is impaired rather than annually,	The staff sought feedback from CMAC and GPF members on the following possible approaches that the staff is considering as part of the Goodwill and Impairment research project. (a) *additional disclosures about acquired businesses*—requiring entities to disclose the following information in the financial statements: (i) key assumptions or targets supporting the purchase consideration and consequently the goodwill acquired in an acquisition (disclosure 1); (ii) comparison of actual performance vis-à-vis the assumptions or targets for a specified number of years following the acquisition (disclosure 2); and (iii) breakdown of carrying amount of goodwill by past acquisitions (disclosure 3). (b) review of existing disclosure requirements in IAS 36 *Impairment of Assets*. (c) *indicator-only approach to testing goodwill for impairment*—	The staff reported the feedback from CMAC and GPF members to the Board at its July 2017 meeting (see Agenda Papers 18–18D)[4].

[4] Agenda Papers could be found here: http://www.ifrs.org/news-and-events/calendar/2017/july/international-accounting-standards-board

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which is the current requirement.	providing relief from the mandatory annual quantitative impairment testing of goodwill by removing the requirement for entities to test goodwill for impairment when there are no indicators of possible impairment. ***Additional disclosures about acquired businesses*** *Disclosures 1 and 2* CMAC members generally supported the possible requirement to disclose more information about acquired business. However, many GPF members expressed concerns that for those disclosures to be meaningful an entity would have to disclose commercially sensitive information. Consequently, if the Board requires those disclosures, entities are likely to disclose only boilerplate information. A few GPF members argued that providing the disclosures for each individual acquisition would be difficult because post-acquisition integration could make it difficult for management to track those targets or assumptions vis-à-vis actual performance. *Disclosure 3* CMAC members stated that disclosing a breakdown of goodwill by past	

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	acquisition can provide useful information. That information helps them in identifying the carrying amount of goodwill relating to acquisitions that they consider unsuccessful. However, GPF members questioned the usefulness of this information, especially long after an acquisition. ***Review of existing disclosure requirements in IAS 36*** CMAC and GPF members generally supported the view that disclosure of a pre-tax discount rate is not useful as that rate is not observable and is generally not used for valuation purposes. One GPF member suggested that disclosure of sensitivity analysis should be removed because this disclosure could make it easy to derive an entity's budgets. However, other members did not support deletion of disclosure of sensitivity analysis. ***Indicator-only approach to testing goodwill for impairment*** GPF members generally supported introducing an indicator-only approach. Some of them preferred removing entirely the requirement for a mandatory annual quantitative impairment test. Those members thought that requiring the quantitative test for the first few years after an acquisition is not useful because there is generally no impairment of goodwill during those initial	

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	years. Some GPF members suggested that the Board could require entities to perform the quantitative test less frequently than annually, for example every three years, and to use the indicator-only approach during the intervening periods. Those members think that this approach would be more robust than removing entirely the mandatory annual quantitative test. A few GPF members questioned the need for revisiting the basis in IAS 36 for the mandatory annual quantitative impairment test. A few CMAC members supported the indicator-only approach, together with a disclosure of the reasons that triggered the quantitative impairment test. Individual members suggested adding the following indicators of possible impairment: (a) a steady decline in the ratio of market value to book value and a comparison of that ratio with those of peer group; (b) loss of market share of key products; and (c) change in key management personnel.	

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	Other suggestions A few CMAC members suggested that the Board could consider requiring an entity to disclose a measure of total assets and liabilities for each reportable segment. That information would allow them to assess the return generated in each reportable segment and compare it with the average cost of capital. Currently, IFRS 8 *Operating Segments* requires an entity to report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker. A few GPF members thought that such disclosures would be relevant only in certain industries. A few GPF members suggested that the staff should focus on the headroom (the amount by which the recoverable amount of a cash-generating unit, or of a group of units, exceeds the carrying amount) to improve effectiveness of the impairment test. A simple approach could be to require entities to disclose the headroom annually. Investors can identify whether there is a declining trend in the headroom and perform their own impairment assessment. Currently, the headroom is disclosed only when a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would	

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	cause its (their) carrying amount to exceed its (their) recoverable amount. During this discussion, some members of CMAC and GPF advocated that the amortisation of goodwill be reintroduced.	
Exposure Draft *Improvements to IFRS 8* Operating Segments [GPF only] Staff asked for preparers' views on the proposals in the Exposure Draft *Improvements to IFRS 8* Operating Segments (ED).	This session was held with GPF only because CMAC discussed the proposed amendments to IFRS 8 and IAS 34 *Interim Financial Reporting* at its meeting in March 2017. The Board published an Exposure Draft (the ED) of proposed amendments to IFRS 8 and IAS 34 in March 2017. The proposals in the ED aim to address the feedback the Board received to its post-implementation review of IFRS 8. There are nine main proposals in the ED. The staff selected four of the proposals, considered to be most relevant to preparers of financial statements, for discussion: (a) introduced emphasis that chief operating decision maker (CODM) makes operating decisions; (b) requirement to link IFRS 8 segments with the annual reporting package; (c) clarified criteria for aggregating operating segments; and	The staff plan to report the feedback to the Board later this year.

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	(d) when there are changes in segmentation – provide earlier interim information. ***Emphasis that chief operating decision maker (CODM) makes operating decisions*** GPF members commented on all the proposed amendments that aim to clarify the role of CODM, which include: (a) introduced emphasis that CODM makes operating decisions; (b) clarification that CODM may be an individual or a group; (c) clarification that the role of non-voting members; and (d) requirement to disclose the CODM's identity. There were mixed views on how the proposed amendment could change identification of the CODM: (a) Some GPF members considered the proposed amendment would result in the CODM being identified at a lower level than it currently is; for example, a level below the board of directors. (b) Other GPF members considered the wording in the ED which states 'a group, such as a board of directors, may include some members whose primary responsibility is governance and who	

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	consequently do not participate in all decision making' could result in the CODM being identified at a higher level than it currently is. This is because it is often a group, such as a board of directors, includes non-voting members. Staff noted that the intention of the proposed amendment is to clarify that a board of directors may be the CODM even if it includes non-voting members. GPF members discussed the difference between making and ratifying decisions. For example, GPF members discussed if approval of budgets is a resource allocation decision or ratification of the operating plan. One GPF member stated it is impossible to generalise who the CODM is because jurisdictions and entities' structures vary. ***Link IFRS 8 segments with the annual reporting package*** Staff explained that the aim of this amendment is to improve the consistency across various communications. GPF members discussed the proposal in the ED to disclose the difference between segments identified in the financial statements and segments identified in other parts of the entity's annual reporting package. Most	

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	GPF member shared the concern that the proposal went beyond the boundaries of the financial statements. Some GPF members said that it was a role of market regulators and auditors to monitor 'non-GAAP' information. GPF members raised the following detailed points: (a) Does the annual reporting package include regulatory reports? (b) How to interpret in practice 'at approximately the same time'? One GPF member, who represented private companies, said that the proposed definition of the annual reporting package was drafted with public companies in mind. The GPF member hoped that the staff would be able to consider this matter during future deliberations. ***Clarified criteria for aggregating operating segments*** Staff explained the aim of this proposed amendment was to strengthen the criteria for aggregating operating segments into reportable segments. There were several detailed amendments to paragraph 12 of IFRS 8 with the most significant amendment saying that operating segments need to be similar across a range of similar long-term economic characteristics.	

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	Most GPF members agreed with the proposal. ***Changes in segmentation – provide earlier interim information*** Currently when an entity changes the composition of its segments during the year, users of financial statements must wait until the end of the reporting period to see the full effect of the change on comparative interim information. Under the proposed amendment, in the first interim report that follows a change in the composition of an entity's reportable segments, the entity shall present restated segment information for interim periods for both the current year and prior years, unless the information is not available and the cost to develop it would be excessive.	