# Summary note of the Accounting Standards Advisory Forum

Held on 17 December 2019 at the IFRS Foundation office, Columbus Building, 7 Westferry Circus, Canary Wharf, London E14 4HD.

*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 IFRS Foundation® website.*

| **Region** | **Members** |
|---|---|
| Africa | Pan African Federation of Accountants (PAFA)* |
| Asia-Oceania (including one at large) | Asian-Oceanian Standard-Setters Group (AOSSG)<br>Accounting Standards Board of Japan (ASBJ)<br>Accounting Regulatory Department, Ministry of Finance PRC (ARD)*<br>Korea Accounting Standards Board (KASB) |
| Europe (including one at large) | European Financial Reporting Advisory Group (EFRAG)*<br>Autorité des normes comptables (ANC)<br>Financial Reporting Council, UK (FRC)<br>Organismo Italiano di Contabilità (OIC) |
| The Americas | Group of Latin American Accounting Standard Setters (GLASS)<br>Canadian Accounting Standards Board (AcSB)<br>Financial Accounting Standards Board, US (FASB) |

* Remote participation via video conference

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## 2020 Agenda Consultation

1. The objective of this session was to receive advice from ASAF members in developing the Request for Information (RFI) on the 2020 Agenda Consultation. ASAF members discussed:

    (a) suggestions for potential projects to include in the RFI (paragraphs 2-10); and

    (b) high-level messages for the Board to consider during the 2020 Agenda Consultation (paragraph 11).

### Suggestions for potential projects

2. ASAF members were asked in advance of the meeting to provide up to five new potential projects to include in the RFI for stakeholders to comment on—see Agenda Paper 1. At the meeting, ASAF members discussed these potential projects, including providing background to the project and the projects' relative importance.

3. Most ASAF members (FRC, FASB, ANC, OIC, EFRAG, AOSSG, GLASS, PAFA, AcSB, KASB) commented on a potential project on intangibles. However, they expressed different views on the scope of such a project:

    (a) The ANC, AOSSG, PAFA, EFRAG and AcSB members suggested that the project could explore the scope, definition, recognition and measurement issues on the accounting for intangibles.

    (b) The FRC, FASB, GLASS, KASB and OIC members suggested that the project could focus on better disclosures about the effect of intangible assets on the entity.

4. Many ASAF members (ASBJ, EFRAG, FRC, FASB, AcSB, KASB) commented on a potential project on cryptoassets:

    (a) The AcSB and KASB suggested that the Board undertake a project in phases. Specifically, the first phase would remove cryptocurrencies from the scope of IAS 38 *Intangible Assets* and allow entities to develop their own accounting policies, while the second phase would provide targeted, long-term accounting requirements.

    (b) The FRC and FASB members stated that holdings of cryptocurrencies are not prevalent in their jurisdictions.

(c) ASBJ and EFRAG members said that they had undertaken projects on crypto assets and could share their experience.

5. Some ASAF members (OIC, FRC, FASB, GLASS and AcSB) commented on a potential project on cost of sales:

(a) The FASB and OIC members said that the Board should undertake a project to provide guidance on how to account for cost of sales. Both members considered this potential project to be a high priority.

(b) The FRC, GLASS and AcSB asked the Board to exercise caution in undertaking standard-setting on this topic. These members suggested that the Board should prioritise projects that would address the financial reporting needs of users.

6. The AcSB and OIC members suggested that the Board should consider a project to align the definition of cost across IFRS Standards observing that IAS 41 *Agriculture*, for example, says that fair value less costs to sell is the cost of agricultural produce at the point of harvest when applying IAS 2 *Inventories*, whereas IAS 27 *Separate Financial Statements* does not define the cost of an investment in a subsidiary, joint venture or associate.

7. Two ASAF members (AOSSG and KASB) suggested that the Board undertake a potential project on borrowing costs to address specific implementation issues. The AOSSG member added that such a project should seek to align IAS 23 *Borrowing Costs* with the concepts used in some recently issued IFRS Standards and with the treatment of borrowing costs in the *IFRS for SMEs* Standard.

8. A few members (AOSSG, PAFA and FASB) commented on a potential project on government grants:

(a) The AOSSG and PAFA members suggested that the Board undertake a project to provide guidance on the accounting for government grants, in particular distinguishing when income from a government grant should be recognised. The AOSSG member added that the project should also update IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* with principles from IFRS 15 *Revenue from Contracts with Customers* and the *Conceptual Framework for Financial Reporting*.

(b) The FASB member shared their experience with its project on disclosures about government assistance. The member said that they have (i) faced challenges in defining the scope of government assistance and (ii) received feedback from preparers in their jurisdiction that the benefits of the project to users would not significantly outweigh the costs.

9. Many ASAF members (GLASS, OIC, AOSSG, KASB, AcSB, FASB) suggested that the Board undertake a project to provide guidance on how to apply IFRS Standards to separate financial statements. The GLASS and OIC members noted that this is a particular issue in their jurisdictions, because financial statements prepared applying IFRS Standards are used for tax purposes. Members discussed how such guidance could be provided:

(a) The GLASS, AcSB and OIC members said that the Board could include an additional step in its standard-setting process to consider whether its decisions should apply to separate entities.

(b) The OIC member also suggested that the US GAAP approach for this topic could be considered as a potential solution. The FASB member noted that their experience dealing with the issue on a standard-by-standard basis has been challenging, but suggested it as a useful starting point for the Board.

(c) The KASB member said that the Board could stipulate in IAS 27 *Separate Financial Statements* that the accounting in separate financial statements shall be consistent with that of consolidated financial statements, when a transaction is carried out or expected to be carried out between entities in a group. Other members observed that such an approach would be difficult to apply in practice.

(d) The AcSB suggested that push-down accounting may be worth considering to deal with some of the concerns raised.

10. ASAF members suggested the following additional potential projects:

(a) The FRC, OIC and GLASS members suggested that the Board consider a project to improve disclosures about an entity's going concern.

(b) The FRC and AcSB suggested that the Board consider a project on emerging types of employee benefits, for example, hybrid pension plans.

(c) The FRC suggested that the Board consider a project on reverse factoring. The FASB member said that they are currently considering a similar request in their jurisdiction.

(d) The KASB and OIC member suggested that the Board consider a project on how to measure assets acquired for free.

## High-level messages

11. ASAF members made the following high-level comments for the Board to consider during the 2020 Agenda Consultation process:

(a) The ASBJ and FRC members stated that the Board should communicate its resource capacity in the RFI and make clear that the Board needs to retain some flexibility to deal with any urgent issues that arise in the 2022-2026 period.

(b) The ANC and EFRAG members said that the Board should prioritise post-implementation reviews and the completion of existing major projects in the 2022-2026 period. These members added that the Board should also prioritise the effects of technology and digital reporting on standard-setting, including the IFRS Taxonomy.

## Post-implementation Review of IFRS 10 *Consolidated Financial Statements;* IFRS 11 *Joint Arrangements;* and IFRS 12 *Disclosure of Interests in Other Entities*

12. The staff updated ASAF members on the feedback received from outreach in Phase 1 of the post-implementation review and requested members' views on potential issues to be considered in the Request for Information.

13. The ASBJ member provided a high-level summary of the feedback from the AOSSG's Working Group members (slides 6-10 of Agenda Paper 3A).

14. Many ASAF members (AOSSG, OIC, AcSB, FRC, GLASS, ANC, ARD) stated that IFRS 10 and IFRS 12 work well in practice; whereas IFRS 11 gives rise to application issues. ASAF members agreed that the application issues arising from IFRS 11 were included in Agenda Papers 3 and 3A.

15. ASAF members agreed that the staff analysis (see Agenda Paper 3) included the main issues to be considered for public consultation. ASAF members noted other issues, including:

   (a) The ARD member:

      (i) said there are challenges in assessing whether rights are substantive or protective and in identifying agency relationship; and

      (ii) suggested providing more guidance on how to assess whether multiple transactions should be accounted for as a single (linked) transaction.

   (b) The FRC member:

      (i) stated that when a parent that is an investment entity fair values a subsidiary that is an investment entity, there is a loss of information about investments and financial liabilities of that subsidiary entity.

      (ii) suggested that the project could consider changes in ownership interests, including the usefulness of information and the consistency of the requirements of IFRS Standards.

   (c) The GLASS member questioned the usefulness of the remeasurement of a retained interest when a parent loses control of a subsidiary which subsequently qualifies as a joint venture or associate entity.

   (d) The ANC member suggested clarifying the definition of minority interest.

16. The FRC and EFRAG members emphasised that some application challenges arise but because transactions and structures are complex rather than the requirements are not clear. They also cautioned that any change to IFRS Standards is potentially disruptive and should be carefully considered.

17. In relation to IFRS 11, the AcSB member confirmed that the issues on classifications of jointly controlled arrangements based on other facts and circumstances and accounting for joint operations are relevant to Canada. They had identified additional application issues that would be shared with technical staff.

18. The ANC member commented that the elimination of proportionate consolidation has given rise to questions about disclosures for joint ventures. The ANC member

recommended the post-implementation review considers the use of joint arrangements, including the purpose and design of joint arrangements.

## Accounting for Intangible Assets

19. The objective of this session was for KASB to present its research project on accounting for intangible assets and its proposed Statement of Core Intangibles, and to seek input from ASAF members on the project and what further work may be needed.

20. The Board's Chair thanked KASB for their work in this area and commented that it will be useful for the Board's work on the revision of the Management Commentary Practice Statement. The Chair also observed some potential challenges that could affect the uptake of the Statement of Core Intangibles (SCI), particularly on a yearly basis, which included the cost and complexity of the valuation exercise. The Chair and the GLASS member suggested that valuations in the SCI might be subject to bias in favour of the entity preparing it, and there could be a conflicting view by an acquiring entity.

21. Two Board members, GLASS, FRC and AcSB members emphasised the importance of providing information on intangibles that is useful to investors in estimating future cash flows.

22. One Board member commented that it is crucial to demonstrate that investors will find the SCI useful. He further commented that the increasing gap between an entity's book value and market value, often cited as a reason to address unrecognised intangible assets, was not a concern generally raised by investors.

23. The GLASS member agreed with the Board member and commented that market valuations reflect the value of an entity's intangible assets and, in his view, the statement of financial position should not include all intangibles.

24. The FRC member suggested that investors would be interested more in the data used to determine the values in the SCI than in the entity's valuation of its intangibles. He suggested that investors would also need performance measures related to intangibles, as well as information on the required investment to sustain intangibles, including maintenance and replacement costs.

25. The AOSSG member suggested that it would be useful to have a discussion of the risks, opportunities and the related sensitivities affecting intangibles. The member

also asked for a clear definition of the terms ‘excess profits’ and ‘value creation’ as used by the KASB in the project.

26. The ANC and AcSB members suggested that more non-financial information on intangible assets was needed, and that it may be difficult to translate such information into reliable monetary values as attempted in the SCI.

27. The ANC member and a Board member asked for clarification of the definition of core intangible assets and how companies would determine what their core intangibles are. The KASB member commented that they anticipate core intangibles to be identifiable by industry and that entities in similar industries would have the same core intangibles.

28. The EFRAG member commented that the KASB’s project was relevant to EFRAG’s work on intangibles, and that the views expressed during this ASAF meeting were aligned with those expressed by EFRAG’s Technical Expert Group.

## IFRS 17 *Insurance Contracts*

29. The objective of this session was to provide ASAF members with an overview of the feedback on the Exposure Draft *Amendments to IFRS 17* that the Board issued in June 2019. The staff presented Agenda Paper 4 and provided an update about the tentative decisions reached by the Board at its November and December 2019 meetings.

30. The FRC member welcomed the Board’s tentative decision to categorise in three groups the topics in IFRS 17 *Insurance Contracts* for which the Board received feedback from outreach and comment letters. He agreed with the Board’s view that it is helpful to stakeholders to have clarity about which topics the Board will or will not consider further.

31. Four ASAF members (FRC, OIC, KASB, ANC) welcomed the Board’s tentative decision to consider further the feedback on some of the topics that the Board considered when developing the Exposure Draft but for which the Board decided not to propose changes to IFRS 17 (for example, the requirements for insurance contracts acquired in their settlement period and the annual cohort requirement for some specific insurance contracts). The FRC member noted the complexity of identifying a population of specific insurance contracts to which possible simplifications of the annual cohort requirement might be considered. He noted that the boundary of any

such population would need to be clear cut. If that were not possible, then in his view the Board should not consider making any changes to the annual cohort requirement.

32. Two ASAF members (OIC, ANC) suggested the Board further explains in the Basis for Conclusions on IFRS 17 the rationale for some requirements in IFRS 17 for which respondents to the Exposure Draft raised concerns and challenges that the Board tentatively decided not to consider further (for example, transition requirements affecting other comprehensive income, classification requirements for contracts acquired in a business combination and a possible additional risk mitigation option for contracts accounted for applying the general model).

33. Two ASAF members (ANC, EFRAG) noted they are further investigating the comments raised by their constituents regarding the interaction between IFRS 17 and IFRS 9 *Financial Instruments*.

34. The AcSB member reiterated the importance of entities in different jurisdictions around the world applying IFRS 17 for the first time at the same time.

35. Two ASAF members (ANC, AcSB) noted they stand ready to continue to help the Board to finalise amendments to IFRS 17.

## Update on agenda planning

36. The technical staff presented Agenda Paper 5, which includes the proposed agenda for the April 2020 ASAF meeting. The staff noted that the Exposure Draft for the *Primary Financial Statements* and the Discussion Paper for the *Goodwill and Impairment* projects would have been published by the April 2020 ASAF meeting. The meeting would include sessions for members to provide early feedback on the consultation documents for both projects.

37. The staff further noted that the project team plans to undertake research to understand the likely effect of the proposals in the Exposure Draft for the *Primary Financial Statements* project. The plan would include asking preparers to re-present their financial statements by applying the proposals in the Exposure Draft. The team would appreciate if members could help to organise the research in their jurisdictions.

38. The EFRAG member welcomed the inclusion of *IBOR Phase 2* in the agenda. The EFRAG member also suggested including *Rate-regulated Activities* and *Amendments to IFRS 17 Insurance Contracts* in the agenda for the upcoming meeting.