STAFF PAPER

Prepared for the Capital Market Advisory Committee and Global Preparers Forum Meeting

Paper topic	**Follow up on issues discussed at the March 2019 GPF meeting**

CONTACT	Michelle Sansom	msansom@ifrs.org	+44 (0) 20 7246 6963

Purpose of this paper

1. This paper provides a brief, high-level update to the Capital Markets Advisory Committee (CMAC)[1] and the Global Preparers Forum (GPF)[2] on how the staff or the International Accounting Standards Board (the Board) considered the advice received during the GPF meeting held in March 2019. It is for information purposes only.

[1] Information about the CMAC's past meetings can be found at https://www.ifrs.org/groups/capital-markets-advisory-committee/#about.

[2] 2 Information about the GPF's past meetings can be found at https://www.ifrs.org/groups/global-preparers-forum/#about

Update on advice received at the March 2019 GPF meeting

Topic	Summary of GPF views presented	Next steps / action taken by the IASB
Subsidiaries that are SMEs	The staff asked GPF members if they would permit their subsidiaries (if eligible to apply the *IFRS for SMEs* Standard) to apply a Standard requiring recognition and measurement in accordance with IFRS Standards and disclosures based largely on the *IFRS for SMEs* Standard. If the Board were to develop such a Standard, what benefits and costs could members envisage? The majority of members who commented expressed support for such an approach, believing it would be attractive to subsidiaries and result in cost savings. On the other hand, two members thought their group would not apply such a Standard. Points to consider in the project: (a) this will not work if the *IFRS for SMEs* Standard requires many additional disclosures that are not present in IFRS Standards; (b) not all subsidiaries that could be eligible for this approach publish general purpose financial statements for external users; and (c) will companies applying this approach have to flag this to their users? Consider whether additional relief could be given to subsidiaries when they:	The staff is undertaking further research. Once the research is completed, the staff will report to the Board; the report will include the feedback from GPF members.

	(a) transition to IFRS Standards at a date different from their parent; or (b) enter into intercompany transactions, for example, an intercompany lease. These transactions are eliminated at group level but are separately recognised in individual subsidiaries' financial statements.	
Onerous Contracts—Costs of fulfilling a contract	GPF members provided feedback on the Board's proposals in Exposure Draft *Onerous Contracts—Cost of Fulfilling a Contract*. Members had mixed views on the Exposure Draft: (a) Some members agreed with the proposals—noting that the concept is well understood and is consistent with other IFRS Standards. Other members did not agree with the proposals—they would prefer an incremental cost approach for some or all types of contracts. These members said for some types of contract (eg service contracts) it may be difficult for an entity to identify and track which costs to include in the cost of fulfilling a contract. Members also noted that developing new accounting or governance systems may be costly. One member said including more than incremental costs in the assessment could produce counter-intuitive results for a contract in which an entity sells idle capacity at a price that includes only incremental costs. Other member comments included: (a) The proposed wording of the amendment does not set out clearly which costs to include and which costs to exclude. In particular, paragraph 68A(c) of the Exposure Draft in relation to 'costs that relate directly to contract activities' and paragraph 68B of the Exposure Draft could be amended so that they contain more examples. (b) The Exposure Draft addresses only one aspect of the onerous contract requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Questions may also arise in identifying 'economic benefits' when assessing whether a contract is onerous.	The comment period on the Exposure Draft ended on 15 April 2019. The Board received 68 comment letters. Feedback received from GPF members formed part of the comment letter summary discussed at the May 2019 Board meeting (Agenda Paper 12). The Board will continue its re-deliberations and decide on project direction at a future meeting.

Provisions	GPF members provided views on the scope of a possible project on targeted improvements to IAS 37 *Provisions, Contingent Assets and Contingent Liabilities*. Members were asked for their views on whether the Board should: (a) align the IAS 37 liability definition and supporting guidance with the *Conceptual Framework*; (b) clarify which costs to include in the measure of a provision; (c) specify whether the rate at which an entity discounts its provisions for the time value of money should include or exclude the entity's own credit risk. **Aligning liability definition and guidance with the *Conceptual Framework*** Members expressed some support for aligning the IAS 37 liability definition and supporting guidance with the *Conceptual Framework*. When asked, the staff said that they thought the only likely change in outcome would be for levies within the scope of IFRIC 21. Some members suggested the outcome seemed like that of applying a matching concept. **Clarifying which costs to include in the measure of a provision** Members had discussed in an earlier session (Agenda Paper 3) the Board's proposals for clarifying which costs to include in assessing whether a contract is onerous. They provided no further comments in this session. A member suggested that if the Board clarifies which costs to include in measuring onerous contract provisions, it should also clarify which economic benefits to include. **Specifying whether the discount rate should include or exclude own credit risk**	The Board discussed GPF members' advice at its May 2019 meeting. See IASB meeting Agenda Paper 22 *Provisions Education Session—Scope of a possible project to amend IAS 37*. The Board will decide later this year whether to undertake a project to make targeted improvements to IAS 37 and, if so, which aspects to consider improving.

	Some members expressed support for requiring entities to exclude their own credit risk from the rates they use to discount provisions. They stated that including an entity's own credit risk is incompatible with the going concern assumption and that requiring entities to exclude it would promote consistency. Some members suggested the Board should not address the question of own credit risk in isolation. The Board should first clarify the objective of discounting in IAS 37, and in IFRS Standards more generally. One member suggested that preparers should be permitted to apply judgement in determining the most appropriate rate for discounting their provisions.	
Management Commentary	The purpose of this session was to seek feedback from members on the staff's proposals for updating IFRS Practice Statement 1 *Management Commentary* (Practice Statement): (a) how to determine what content to include in management commentary; (b) the interaction between management commentary and other reports; (c) forward-looking information in management commentary; and (d) information about tax in management commentary. **How to determine what content to include in management commentary** Members explained that they determine what content to include in the management commentary on the basis of: (a) dialogue and questions from investors and analysts, including at capital markets days and on investor calls; and (b) requirements of local standards and regulation. Members said they also determine the content of management commentary by:	The staff will consider the feedback from GPF members in preparing future agenda papers for the Board.

	(a) considering the changes to the business during the year (including changes to strategy), trends in earnings, and other factors that could affect the entity's future cash flows; (b) assessing what was included in the entity's earnings communications during the year; and (c) aiming for a comprehensive overview of the entity's results for the year so that users do not need to refer to the financial statements. Members highlighted the following challenges encountered in determining what content to include in management commentary: (a) commercial sensitivity – providing sufficient information to users of financial statements without disclosing information that would compromise the entity's competitive position; (b) users' varying expectations – balancing users' calls for simplicity against calls for detailed information; and balancing users' requests for quantitative earnings predictions and for non-GAAP information against regulatory compliance; and (c) timing – how to include in management commentary information prepared in response to the following if they take place shortly before publication of the management commentary: questions received on capital markets days or changes in strategy. **Interaction between management commentary and other reports** Members expressed different views on the interaction between management commentary and other reports, including some resistance to cross-referencing to reports other than the financial statements. Comments by members included: (a) the management commentary is considered to be a primary source of information to users and should be made readily comprehensible;	

	(b) for the management commentary to be comprehensive, as a stand-alone document, it is sometimes necessary to duplicate information between management commentary and other reports or the financial statements; (c) it is easier to cross-refer from management commentary to financial statements than vice-versa because financial statements are normally subject to a higher level of external audit assurance than the management commentary; (d) referenced information should not be considered to form part of management commentary, but should be supporting or additional information; (e) advances in technology (eg the use of hyperlinks) should be considered in developing proposals for the use of cross-referencing; and (f) instead of restricting cross-referencing to reports that do not change, it may be more helpful if the management commentary indicates whether the referenced information is subject to (periodic) updating or relates to a single point in time. **Forward-looking information in management commentary** There were contrasting views on the staff's proposal of including in management commentary forecasts that have already been published elsewhere, such as in investor presentations and news releases. Members who disagreed said this was mainly due to legal implications (including, for example, not setting up any expectations of future performance in relation to share options) or local regulatory restrictions. One of those members, however, said they agreed with the proposal that management commentary should subsequently compare actual performance to previous forecasts (including those that were published elsewhere). Some members provided examples of forecast information (typically for the next reporting period and, where further, not beyond 5 years) they currently include in management commentary:	

	(a) revenue; (b) profit margin; (c) EBITDA; (d) capital expenditure (e) expected production and capacity; (f) debt ratios; and (g) effective tax rate range. **Information on tax in management commentary** Comments from members on tax included: (a) forward-looking information on tax in the management commentary can be both difficult to prepare and sensitive in nature, but some discussion of significant changes such as a major tax reform announced close to the date of publishing management commentary should be included. The recent US tax reform could be used as a case study or example in developing proposals for reporting tax in management commentary. (b) the revised Practice Statement should not include prescriptive requirements on what to discuss in relation to tax, particularly on expected changes to tax rates or tax laws, because there may be too much uncertainty on what the tax rates could be, especially when entities operate in several jurisdictions; (c) to help users estimate future tax rates, management commentary should discuss where uncertainties exist and provide available information known to management; and (d) proposals for reporting tax in management commentary should cover not just income tax, which can be relatively stable in some countries, but also other taxes such as employee taxes and VAT.	

Disclosure Initiative: Targeted Standards-level review	The purpose of this session was to seek members' views on potential disclosure requirements identified by users of financial statements during outreach relating to IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurement*. Members provided feedback on whether the items of information identified in outreach with users during November 2018–March 2019 (see Agenda Paper 6A): (a) would be costly to prepare; (b) would be costly to audit; (c) have less costly alternatives to meet the same objective; and (d) have any expected benefits to other stakeholders, rather than users. **IAS 19 *Employee Benefits*** A few members agreed with selecting IAS 19 as a case study for the targeted standards-level review of disclosures. These members said that pension disclosures in financial statements are often lengthy and contain irrelevant information. Members provided the following comments on information about cash flows: (a) Many members agreed that information about the cash impact of defined benefit pension schemes would be useful to users, with some adding that they expect this to be the most relevant information. Consequently, many members supported disclosure of a schedule of expected contributions to the defined benefit plans, although a few added that such information should be required for no more than five reporting periods. (b) One member said that it would not be difficult for preparers to separate normal cash contributions from special funding cash contributions.	The Board discussed feedback from GPF members at its May 2019 meeting (see Agenda Papers 11B and 11C). The Staff will consider the feedback as it develops recommendations for the Board on amendments to the disclosure sections of IAS 19 and IFRS 13 in future meetings.

	(c) One member added that questions from users about employee benefits generally relate to cash, and another member added that pension plan trustees are also interested in future cash contributions from the entity. A few members supported disclosure of the following information: (a) explanation and disaggregation of the amount recognised in the financial statements. These members, however, added that this information may be costly to prepare depending on the expected level of disaggregation. One member suggested that providing this information separately for funded and unfunded plans would provide useful information to users. (b) narrative information about the nature and characteristics of the defined benefit plans. (c) significant financial and demographic assumptions used in deriving the pension obligation. 30. Some members commented that disclosing a sensitivity analysis that shows the effect on the defined benefit obligation of changing more than one assumption simultaneously is not practical and would be very costly to prepare. One of these members added that the information would also be costly to audit. A few members commented that the following information would be challenging to provide: (a) an explanation of the differences between various pension plan valuations. These members added that any form of pension valuation requires engagement with specialists and therefore reconciling those valuations would be a costly exercise. (b) a schedule of expected future benefit payments to members of closed plans.	

	(c) the fair value of the plan assets disaggregated by asset types with additional information, including actual rate of return on specific asset types. **IFRS 13** ***Fair Value Measurement*** A few members said that it would be costly to provide wider sensitivity analysis for Level 3 fair value measurements. One of these members suggested providing a three-case scenario analysis displaying the normal, stress and positive impact of reasonably possible changes in the inputs on the measurement. One member expressed disagreement with providing disclosures for Level 2 fair value measurements similar to those provided for Level 3. Another member said that, in their view, such disclosures for Level 2 would not be useful to users. One member expressed agreement with disclosing the following information: (a) narrative information about how an entity has determined the level of the fair value hierarchy that an instrument belongs in; and (b) explanation and disaggregation of total fair value of assets and liabilities recognised on the balance sheet. One member was concerned that one of the objectives of many of the disclosures proposed by users was to validate the trust that users could place in the measurements arrived at by the entity.	