

## STAFF PAPER

October 2019

## Global Preparers Forum

With late suggestions (Appendix) inserted  
in red

|                    |  |  |                     |
|--------------------|--|--|---------------------|
| <b>Project</b>     | <b>2020 Agenda Consultation</b>                    |  |                     |
| <b>Paper topic</b> | Suggestions received for potential future projects |  |                     |
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## Introduction

1. In Agenda Paper 6 we have set out the Board's approach to the 2020 Agenda Consultation. That consultation will include a Request for Information (RFI) which will be published in September 2020. Within that RFI, the Board proposes including a description of potential projects for inclusion in the Board's future work plan for comment by stakeholders.
2. The objective of this session is for GPF members to help us develop the description of their suggestions for potential projects. We are not seeking a consensus view from the group at this stage.
3. In Appendix A to this paper we have noted the topics suggested by members for discussion today. Where GPF members have provided suggested solutions or an indication of size we have included this information.
4. We have not prepared any assessment or added an analysis of the topics suggested; this is a fact-finding session with the aim of letting members describe projects in their own words. We have, however, tried to categorise the topics suggested by theme to give structure to the discussions.

## **Proposed approach to the discussions**

5. We suggest the following agenda for the discussions:
  - (a) Discussion of suggestions for potential projects as noted in appendix A— including members reactions to topics; and
  - (b) Discussion of the financial reporting environment and other comments received, such as overall balance of the Board’s activities and comments on the agenda consultation process.

## Appendix A Suggested topics—for discussion

| <b>Potential new topics to add to work plan</b>  |
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| <b><i>1 Inflation:</i></b>   |
| <b>Hyperinflation:</b> Fundamental review of IAS 29 and parts IAS 21.  |
| <b>Inflation</b> IAS 29 is a very old standard with unclear guidance and accounting outcomes that lack usefulness and are very difficult to understand for investors - particularly if IAS 29 is applied only on subsidiary level in consolidated financials of a non-hyperinflationary parent                       |
| <b>High inflation:</b> While there is guidance about hyper-inflation (albeit a little dated) there is little guidance about high, rather than, hyper-inflation.  |
| <b><i>2 On a theme of intangibles:</i></b>   |
| <b>Intangibles:</b> Complete fundamental review of IAS 38 plus related IFRS 3. Need clear and consistent reporting of intangibles however they arise. Include goodwill.  |
| <b>Intangibles</b> are among the most important assets in many if not most companies. IAS 38 results in insufficient transparency on an entity's intangibles as it heavily limits the ability to show them in the balance sheet and fails to provide for disclosures that compensate for the lacking capitalisation. |
| <b>Goodwill and intangible assets:</b> if goodwill is not amortised, then many think that goodwill over time is replaced by intangibles created post-acquisition. Gives an inconsistency between those that grow through acquisitions and those through self-investments   |
| <b>Goodwill and intangibles:</b> Need a more up to date and comprehensive definition for recognition by reflecting current trends  |
| <b>Interaction of IFRS 15 and IAS 38:</b> IFRIC recently considered the treatment of training costs to fulfil a contract. IAS 38 requirements addressing internally generated intangibles was linked   |

with training costs in fulfilling a customer contract because training was excluded from performance obligations.

**Depreciation: AI alters the concept of depreciation:** does IT appreciate in value over time as a result of machine learning? Should it be accreted, rather than depreciated? Inappropriate to depreciate AI assets. Introduce negative depreciation into IAS 16 or a standard on AI.

***3 Discount rates***

**Central banks intervene in bond markets** making it difficult to determine 'fair' discount rates

**IAS 19 corporate bonds:** definition of corporate bonds and deep markets determining discount rate. Discussed by regulators in smaller countries with own currency and smaller capital markets. Significant interest spread in 'smaller countries' and diversity in practice.

***4 Taxation***

**Tax:** More clear guidance on recognition and newly-emerging taxes such as Digital Service tax.

**Deferred tax asset recognition:** ESMA suggests there is divergence in practice. Regulators have been represented as wanting to reconcile plans used for impairment testing, viability statement calculations and going concern assessments with plans used for deferred tax asset recognition. Possible audit and regulator conflict.

***5 Other suggested topics:***

**Cash flows:** fundamental review IAS 7. IAS 7 cash flows are not in a form that is useful to investors or management. Also line up Operating cash flow IAS 7 with op segments per IFRS 8

**Income Statement Classification** while IAS 1 gives basic information on income statement line items (incl some additional guidance expected from the Primary Financial Statements Project) IFRS lack guidance on classification. This results in diversity in practice which limits the usefulness of income statements (eg Which expenses qualify for ,cost of sales,'distribution costs',

,administrative expenses? Shouldn't cost of R&D be a mandatory separate line item and what would be the boundaries of such line item? etc)

**Government grants vs shareholder contribution when the shareholder is a government:**  
 very common in the Middle East, for example with public infrastructure. The contract to build is held by a commercial entity but the government is a majority shareholder. Shareholders contribution tested for impairment and losses in P&L; treated as grant recognised as deferred income and released to P&L over useful life of asset to which it relates. Treat as grant.

**IFRIC submissions:** suggest refer to items not addressed by IFRIC

**Suggestions relating to existing or planned projects**

***Aspects of goodwill and IFRS 3:***

**Impairment:** More efficient and effective approach to impairment recognition. Introduce amortisation of goodwill to prevent too little, too late.

**Input on balance of activities**

**Conceptual Framework** CF and Standards should be harmonised: for example IAS 37 and related Interpretations

**Complexity of recent standards:** IFRSs 9, 15, 16 added a great amount of complexity. Board should investigate reducing complexity

**Old and new standards should be harmonised:** New approaches in IFRSs 9,15,16 should be incorporated in old Standards