Summary note of the Accounting Standards Advisory Forum

Held remotely on 10 December 2020.

This note is prepared by staff of the International Accounting Standards Board (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 (participating remotely via video)**
Africa	Pan African Federation of Accountants (PAFA)
Asia-Oceania (including one at large)	Asian-Oceanian Standard-Setters Group (AOSSG) Accounting Standards Board of Japan (ASBJ) Accounting Regulatory Department, Ministry of Finance PRC (ARD) Korea Accounting Standards Board (KASB)
Europe (including one at large)	European Financial Reporting Advisory Group (EFRAG) Autorité des normes comptables (ANC) Financial Reporting Council, UK (FRC) Organismo Italiano di Contabilità (OIC)
The Americas	Group of Latin American Accounting Standard Setters (GLASS) Canadian Accounting Standards Board (AcSB) Financial Accounting Standards Board, United States (FASB)

Rate-regulated Activities

1. The objective of this session was to obtain an understanding of ASAF members' plans for outreach and receive advice on the activities the Board should undertake to stimulate feedback for the forthcoming Exposure Draft on regulatory assets and regulatory liabilities (exposure draft or proposals).

Relevance of the proposals and plans for outreach

2. ASAF members commented on the relevance of the proposals in their jurisdictions and their plans for outreach:

   (a) the AcSB member said the proposals are relevant in Canada. The AcSB is planning virtual meetings with targeted stakeholders including both debt and equity analysts, preparers associations, rate regulators, securities regulators and auditors offering the possibility to interested parties to join. She also commented that it is important to educate stakeholders on the difference between the proposals and US GAAP.

   (b) the FASB and the PAFA members said their stakeholders are interested in the proposals. The FASB member offered to help to address questions about the application of US GAAP and to facilitate outreach with multinational preparers in the US. The PAFA member said he expects the proposals to affect many entities, particularly state-owned entities, which apply IFRS Standards. He added that PAFA will start outreach once the exposure draft is published and that he will provide feedback to the Board.

   (c) the EFRAG member reported that EFRAG is already seeking preliminary feedback from users and preparers on the proposals via questionnaires, which aim to gain an initial understanding:

      (i) about the analyses users carry out of rate-regulated entities and the high-level effects expected from the proposals; and

      (ii) of preparers' views on the scope of the proposals as well as possible implications, the likely effects of the proposals and implementation challenges.

   Once EFRAG issues its draft comment letter the EFRAG member said EFRAG would continue outreach using the published exposure draft.

(d) the ANC member said the ANC has a working group on rate-regulated activities and would welcome an exchange of views with the staff to clarify aspects of the proposals so that the ANC can better contribute to the Board's due process.

(e) the FRC member said he expects the proposals to affect comparatively few entities in the UK but the proposals may have a significant impact in some industries.

(f) the FRC and the AOSSG members expressed their interest in working in joint events with the Board during the exposure draft's comment period.

(g) the KASB member said he expects that only a few entities, primarily utility entities or entities supplying public goods or services, will be affected by the proposals in his jurisdiction.

3. Some ASAF members (ANC, ARD, ASBJ, EFRAG, FRC and OIC) said clarity on the scope of the proposals would be critical in enabling them to identify the right stakeholders to participate in their outreach and in enabling stakeholders to understand whether the proposals would affect them. The ANC member also wondered whether the scope is wider than initially expected.

4. The staff reported that the illustrative examples accompanying the exposure draft would provide ASAF members with a good basis for understanding the circumstances in which regulatory agreements create regulatory assets and regulatory liabilities.

5. The AcSB member said her jurisdiction has expressed no concerns about the scope of the proposals. She said, because the proposals are relevant in her jurisdiction, the AcSB started discussions with entities and education on the scope early, and this outreach probably addressed any questions or concerns about scope. She stressed education and interaction with entities as key methods for reducing questions or concerns about the scope of the proposals.

6. Some ASAF members provided recommendations to the Board:

(a) the ARD member said the outreach should focus on obtaining a wide understanding of entities' practices, the main problems and the potential effect of the proposals on the financial statements of entities in various jurisdictions. She recommended the Board consider the use of survey questionnaires and round table discussions to reach a wide variety of stakeholders.

(b) the AOSSG member said small group discussions with affected stakeholders would be likely to be most effective way to gather views on the proposals.

(c) the AOSSG and the KASB members recommended the Board use outreach to educate stakeholders and raise awareness about the proposals by:

 (i) holding webcasts and preparing visual materials; and

 (ii) arranging interviews with preparers to understand the various types of regulatory agreements and identify those that would create regulatory assets and regulatory liabilities.

Other topics

7. The OIC member said outreach would be helpful in investigating whether stakeholders have any difficulties in understanding the application of the proposed recognition requirements or in understanding the proposed assessment of whether rights and obligations are enforceable. The staff stated that:

 (a) the exposure draft will provide a list of facts and circumstances to help entities determine whether regulatory assets or regulatory liabilities exist.

 (b) the proposal on recognition would require the application of judgement. Assessing whether rights and obligations are enforceable is not a new task introduced by the proposals but is rather a requirement in various IFRS Standards. Consequently, stakeholders should already be familiar with this assessment.

8. The ANC member said outreach should seek views on the relationship between the proposals and both IFRS 15 *Revenue from Contracts with Customers* and IFRIC 12 *Service Concession Arrangements*. He also asked whether there is an indication about the possible effects of the proposals on entities' financial statements. The staff said those effects would vary depending on whether entities currently recognise regulatory balances and on how far apart regulatory requirements are from accounting requirements.

9. The OIC and KASB members said the comment period of 150 days may not provide stakeholders with enough time to participate in the outreach events and therefore provide appropriate feedback because the comment period overlaps with the comment period of other documents published by the Board and with entities' year-end reporting.

Cryptoassets

10. The objective of this session was to ask ASAF members for preliminary views on EFRAG's discussion paper *Accounting for Crypto-assets (Liabilities)*, published in July 2020 and open for comment until 31 July 2021.

11. ASAF members were asked whether:

    (a) they agree there is a need to address accounting topics not in the scope of the IFRS Interpretations Committee's agenda decision 'Holdings of Cryptocurrencies', which was published in June 2019.

    (b) they would support:

        (i) Option 1: no change to IFRS requirements;

        (ii) Option 2: clarify and/or amend IFRS requirements;

        (iii) Option 3: develop a new standard; or

        (iv) any other approaches not listed in the discussion paper.

    (c) the scope of any new standard should be limited to cryptoassets (or liabilities) or should also encompass digital assets and liabilities.

The need to address the accounting for cryptoassets (or liabilities)

12. ASAF members generally said the nature and use of cryptoassets (or liabilities) and the market for those assets (or liabilities) are still developing. The FRC and KASB members added that laws and regulations on the use of cryptoassets (or liabilities) are still under development. The FRC member said there is no immediate need to undertake standard-setting and any action the Board might take in the near term could be perceived as legitimising the use of cryptoassets (or liabilities).

13. The ANC and ASBJ members said the market for cryptoassets (or liabilities) has not developed as rapidly as they had anticipated (the ANC and ASBJ have already published requirements on this topic).

14. EFRAG's discussion paper was viewed as helpful in the context of the Board's next Agenda Consultation—it would help stakeholders to gauge the priority of any standard-setting on cryptoassets (or liabilities) compared to other areas of financial reporting. The ANC member said standard-setting would help ensure transparent information is provided about these types of assets and liabilities.

15. The FASB member said, like IFRS Standards, US GAAP includes requirements that apply to cryptoassets and cryptoliabilities based on the nature of the rights and obligations arising for an entity. The FASB has not yet identified a need to undertake standard-setting.

Approach to address the issue of accounting for cryptoassets (or liabilities)

16. The ANC, FRC and KASB members said the Board should consider possible amendments to IFRS requirements (Option 2). The FRC member suggested assessing investors' need to have better disclosure about cryptoassets, particularly with respect to the risks that they entail.

17. The AOSSG and ARD members said the Board should develop a new standard (Option 3), in particular for cryptoassets. They said a new standard can accommodate potential developments in the future, while not interfering with existing IFRS Standards. The scope of the new standard could potentially include intangible assets held for investment purposes.

18. The ASBJ and KASB members suggested amending IAS 38 *Intangible Assets*, noting that cryptoassets had not been envisaged when IAS 38 was developed.

Financial Instruments with Characteristics of Equity

19. The purpose of this session was to seek feedback from ASAF members on potential refinements to the disclosure requirements discussed in the Discussion Paper *Financial Instruments with Characteristics of Equity*, published in June 2018.

Priority of financial instruments on liquidation of an entity

20. ASAF members said their stakeholders generally agreed with some of the refinements to the disclosure of information about the priority of financial instruments on liquidation but expressed specific concerns about other refinements. ASAF members had general concerns about:

    (a) the cost and complexity of providing this disclosure, especially for large groups with complex capital structures; and

    (b) the potential for disclosure overload reducing the usefulness of information.

Disclosure on an individual entity basis versus consolidated basis

21. The ANC member agreed that disclosure for individual entities is the right starting point but highlighted the potential difficulty of providing this disclosure in a tabular format (as illustrated in the staff example), especially for more complex groups because:

    (a) the disclosure would not show assets that are used as guarantees or collateral for liabilities, which can affect the priority of financial instruments within the group; and

    (b) given the overall effect on the group would differ depending on where the particular subsidiary entering into liquidation is located within a group, a single tabular disclosure may not capture the complexity of different points of entry for liquidation and multiple waterfalls within a group.

22. While acknowledging the absence of an easy solution, the ANC member suggested considering whether other entities can be required to provide the regulatory disclosures required of financial institutions to meet the needs of users of financial statements. He added that European regulation requires a line-by-line disclosure for key features of each financial instrument an entity issues.

23. The FRC member said although the refinements—such as providing the disclosure for individual entities—will address some challenges, others would remain. He cited cost versus benefit as the most significant concern in providing the disclosure especially when liquidation is only a remote possibility.

24. The ASBJ member disagreed with disclosing a breakdown of financial instruments by legal entity because:

(a) it is inconsistent with the *Conceptual Framework for Financial Reporting* which states that consolidated financial statements are not designed to provide separate information about the assets and liabilities of any particular subsidiary; and

(b) a large group with many subsidiaries might have difficulties providing such disclosure and it might have limited usefulness.

25. The FASB member questioned the operability of this disclosure for multinational groups. He added that it would be useful to think about whether the disclosure would look the same for groups horizontally designed (with direct subsidiaries of parent) or vertically designed (with indirect subsidiaries).

Non-financial liabilities

26. The AOSSG and ASBJ members highlighted the importance of requiring entities to include non-financial liabilities in the disclosure because users of financial statements assess the risks arising on liquidation of an entity considering all claims, not only financial instruments. However, the KASB member said requiring even a narrative description on non-financial items would be too burdensome for preparers.

Legal effects

27. The ANC member expressed the view that the information disclosed should be based on what is expected to happen in real life upon liquidation, which accounts for legal effects in determining the priority of financial instruments.

28. The FRC member questioned how legal and contractual priority differs given that a contract creates legal rights and obligations.

29. The AOSSG and KASB members expressed concerns over the cost of providing information about the legal effects and that the resulting disclosure can be too detailed and lengthy.

Carrying amounts versus fair values

30. With respect to the question about the measurement basis of the quantitative information in this disclosure requirement, the AOSSG and ARD members agreed an entity should disclose carrying amounts (if amounts are required to be disclosed) citing the difficulty for entities to estimate fair values or recoverable amounts.

31. The ANC member said liquidation values should be disclosed—not carrying amounts or fair values. Alternatively, he suggested disclosing carrying amounts as a default but disclosing liquidation values if they are significantly different from the carrying amounts.

32. The FASB member said, in determining what would be relevant quantitative values, a standard-setter should consider whether an entity would be able to determine those values on a periodic basis from a cost versus benefit perspective.

33. The ASBJ member said he would prefer qualitative disclosures to quantitative disclosures because, in his view, when an entity enters into liquidation, the going concern assumption no longer holds and neither the book value nor the fair value would be a fair presentation.

Other comments

34. The FRC and PAFA members questioned how the potential refinements to the disclosure requirements fit in with the findings from the Principles of Disclosure project.

35. The FRC member suggested field testing the refinements with large groups to assess the costs of compliance and the benefits to users of financial statements.

36. The PAFA member questioned whether the information on liquidation would be useful when it is appropriate to assume the entity is a going concern.

Board member comments

37. Some Board members commented that users of financial statements have told the Board how important it is to improve financial information about the priority of financial instruments and preparers have told the Board that entities that consolidate numerous subsidiaries will find it difficult to provide this information. Board members clarified that many of the refinements are focused on making the preparation of this disclosure as pragmatic as possible. For example, the refinements to provide disclosure based on the contractual terms would allow an entity to prepare the disclosure without having to predict or estimate legal outcomes such as what a bankruptcy court may determine as the order of priority on liquidation of the entity.

Potential dilution of ordinary shares

38. The ANC, ARD and EFRAG members expressed general agreement with the potential refinements. The ANC member agreed with the refinements and, in particular, agreed with avoiding duplication of information by allowing an entity to cross reference a disclosure to the disclosures required by IFRS 2 *Share-based Payment*.

39. The AOSSG member said one of its members questioned whether the incremental usefulness of an entity disclosing significant changes in the maximum number of additional ordinary shares as a narrative would outweigh the concern for disclosure overload given that the entity would also be required to disclose the key terms for understanding the potential dilution.

40. The ANC, AOSSG, ARD and EFRAG members agreed with requiring both listed and unlisted entities to disclose the maximum number of additional ordinary shares that they could be required to issue because users need information about share dilution for both types of entities. They said unlisted entities tend to have more complex capital structures and more dilutive instruments than do listed entities. The ANC and AOSSG members suggested investigating the rationale why IAS 33 *Earnings per Share* limited its scope to listed entities and whether that rationale would apply to these disclosures. However, the ANC member said IAS 33 was published over 20 years ago and therefore the scope of these disclosures may not need to be aligned with that of IAS 33. While acknowledging those points, the FRC member expressed the view that the disclosure may be too onerous for unlisted entities.

41. The ARD member said stakeholders in China requested more explanations about the basis and assumptions that would apply in calculating the maximum number of additional ordinary shares. She added that disclosure on the share repurchase plans would provide useful information.

Terms and conditions of financial instruments

42. The AOSSG member generally agreed with the potential refinements but suggested revisiting the rationale for removing similar disclosure requirements from IAS 32 *Financial Instruments: Presentation* when IFRS 7 *Financial Instruments: Disclosures* was introduced. The AOSSG, ARD and KASB members agreed with limiting the scope of the disclosures to financial instruments for which classification involves

significant judgement rather than including all capital instruments issued for long-term funding. The AOSSG member also suggested it may be better to specify the instruments that are subject to the disclosures to avoid creating diversity in practice.

Dynamic Risk Management

43. The staff:

(a) provided an update about outreach on the core dynamic risk management model to gather views and feedback that will help the Board when deciding the direction of the project;

(b) explained the characteristics of the participating banks and the common themes emerging from the feedback received to date; and

(c) said feedback on the results of the outreach will be provided at a future ASAF meeting.

Lack of Exchangeability (Amendments to IAS 21)

44. The objective of the session was to inform ASAF members about project developments and introduce the forthcoming Exposure Draft.

45. The AOSSG, ARD, FRC and PAFA members generally agreed with the forthcoming proposed narrow-scope amendments to IAS 21 *The Effect of Changes in Foreign Exchange Rates* in relation to a currency's lack of exchangeability. Some ASAF members also commented:

(a) the PAFA member said the project is particularly relevant for entities in jurisdictions, like Zimbabwe, that face restrictions on the amount of currency that can be exchanged;

(b) the FRC member said the forthcoming proposed amendments should capture all situations in which a currency lacks exchangeability, noting that the circumstances of each of these situations can differ; and

(c) the AOSSG, ARD and KASB members provided comments on the forthcoming proposed application guidance and illustrative examples—for example, regarding a normal administrative delay, an insignificant amount of foreign currency and when to use an observable exchange rate as the estimated spot exchange rate.

Update and agenda planning

46. The objective of this session was to inform ASAF members about the Board's work plan and to discuss planned topics for the next ASAF meeting in March 2021. The staff said the next ASAF meeting will be held remotely and explained the objectives of the discussion of the planned topics for the March 2021 ASAF meeting.

47. The FRC, AOSSG and ANC members expressed the view that the Business Combinations under Common Control project could be discussed at a later ASAF meeting to allow members to undertake outreach and provide more informed feedback, considering that the Discussion Paper *Business Combinations under Common Control* has only been recently published and is open for comment until 1 September 2021.

48. In response to a query by the AcSB member, the Executive Technical Director said the Board plans to discuss the feedback on the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* in its March 2021 meeting and the staff plan to present the analysis to ASAF members at the June 2021 ASAF meeting.