

# STAFF PAPER

5 March 2020

## Prepared for the Global Preparers Forum meeting

<b>Project</b>	<b>IASB update</b>		
<b>Paper topic</b>	<b>Follow up on issues discussed at the October 2019 GPF meeting</b>		
<b>CONTACT(S)</b>	Michelle Sansom	msansom@ifrs.org	+44 (0) 20 7246 6963

This paper has been prepared for discussion at a public meeting of the Global Preparers Forum. The views expressed in this paper do not represent the views of the International Accounting Standards Board (Board) or any individual member of the Board. Comments on the application of IFRS<sup>®</sup> Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB<sup>®</sup> *Update*.

---

### The purpose of the session

1. This paper provides an update to the Global Preparers Forum (GPF)<sup>1</sup> on how the International Accounting Standards Board (Board) or the staff considered the advice received during the GPF meeting held in October 2019.
2. The update is provided for information only.

---

<sup>1</sup> 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 October 2019 GPF meeting

	Summary of GPF views	Next steps / action taken by the Board
IBOR	<p>The purpose of this session was to provide an update on the IBOR Reform project and obtain input from GPF members on potential accounting issues to be considered by the Board during Phase 2.</p> <p>GPF members' comments on potential Phase 2 issues included:</p> <ol style="list-style-type: none"> <li>a. Agreement with the preliminary list of issues identified by technical staff.</li> <li>b. A suggestion that issues arising when financial assets are modified be prioritised—there is less guidance on this topic in comparison to when financial liabilities are modified.</li> <li>c. The Board should consider the potential impacts of IBOR Reform on IFRS Standards other than IFRS 9 <i>Financial Instruments</i> and IAS 39 <i>Financial Instruments: Recognition and Measurement</i>.</li> </ol> <p>GPF members also noted that the Board should ensure it has adequate resources to ensure that Phase 2 issues are addressed comprehensively and in a timely manner.</p>	<p>The staff considered the feedback received from GPF members when discussing Phase 2 issues at subsequent Board meetings.</p> <p>At its meetings between October 2019 and January 2020 the Board discussed and tentatively decided to make amendments to particular IFRS Standards to address issues that affect financial reporting after the reform of interest rate benchmarks, including its replacement with alternative benchmark rates. Those issues included classification and measurement of financial instruments applying IFRS 9, hedge accounting applying IFRS 9 and IAS 39 and potential implications for other IFRS Standards (eg IFRS 16 <i>Leases</i>).</p> <p>The Board expects to publish an exposure draft in April 2020.</p>
Primary Financial Statements	<p>The staff provided GPF members with an update on the project status in preparation for publication of an exposure draft expected at the end of 2019.</p> <p>GPF members asked for clarification on some of the Board's forthcoming proposals to be included in the exposure draft. The technical staff provided responses and noted some of the suggestions made by GPF members could be addressed in drafting the exposure draft.</p>	<p>The Board has now published the exposure draft.</p> <p>The Board is now undertaking outreach activities, including field-testing of the proposals.</p>

	<p>GPF members' comments on the forthcoming proposals to be included in the exposure draft included:</p> <ul style="list-style-type: none"> <li>a. The Board should be cautious about defining operating profit as the residual category of the statement of profit or loss. In their view, the residual approach to defining operating activities in IAS 7 <i>Statement of Cash Flows</i> results in some cash flows being treated as operating that are not operating in nature.</li> <li>b. The share of profit or loss of integral associates and joint ventures should be classified in operating profit because, in their view, it is part of an entity's main business activities.</li> <li>c. The proposed definition of 'unusual items' is too restrictive.</li> <li>d. The requirement to disclose an analysis of expenses by nature adds complexity and would require accounting system changes.</li> <li>e. Classifying interest income from cash and cash equivalents in the financing category of the statement of profit or loss and classifying interest received as an investing cash flow in the cash flow statement would not faithfully represent an entity's performance and cash flows.</li> </ul>	
<p>Disclosure Initiative— Accounting Policies</p>	<p>GPF members provided feedback on the Board's proposals in Exposure Draft <i>Disclosure of Accounting Policies</i>.</p> <p>Some of the GPF members agreed with the proposal to require entities to disclose their 'material' accounting policies instead of their 'significant' accounting policies. These members considered the proposal would help preparers focus only on disclosing information which is material to the financial statements. However, some members added that so-called 'boilerplate' disclosure can be useful to users of financial statements that are not familiar with IFRS Standards, especially in emerging markets or where IFRS Standards are not the dominant set of accounting standards.</p> <p>A few members suggested that the proposed new paragraph 117B of IAS 1 <i>Presentation of Financial Statements</i> should be clarified to help entities consider accounting policy disclosure of transactions, other events and conditions that may be material only by nature and not by size.</p>	<p>Feedback from the GPF members was considered by the Board as part of the analysis on responses to the Exposure Draft in February 2020 (see <a href="#">February 2020 Agenda Paper 20</a> of the IASB meeting).</p>

	<p>A few members suggested the Board clarify new paragraph 117B(e) of IAS 1, as accounting policy disclosures should already reflect how an entity has applied the IFRS Standards to that entity’s specific circumstances.</p>	
<p>Post-implementation reviews of IFRS 10 <i>Consolidated Financial Statements</i>, IFRS 11 <i>Joint Arrangements</i> and IFRS 12 <i>Disclosure of Interest in Other Entities</i></p>	<p>GPF members shared views on the application of IFRS 10 <i>Consolidated Financial Statements</i>, IFRS 11 <i>Joint Arrangements</i> and IFRS 12 <i>Disclosure of Interest in Other Entities</i>, which are subject of a post-implementation review.</p> <p>GPF members’ comments on the requirements of IFRS 10, included:</p> <ul style="list-style-type: none"> <li>a. the definition of control should be consistent between IFRS 10, IFRS 15 <i>Revenue from Contracts with Customers</i> and IFRS 16 <i>Leases</i>.</li> <li>b. ‘the consolidation exemption for investment entities’ is useful.</li> <li>c. the judgement required to distinguish substantive rights from protective rights is a challenge, for example, when one party has the right to appoint the chief executive and operating officer and another party has the right to appoint the chief financial officer. The GPF member said the use of judgement in distinguishing rights creates ambiguity about control, making it difficult for an investor to assess who has control.</li> <li>d. there is a perceived inconsistency between IAS 28 <i>Investments in Associates</i> and IFRS 10—relating to sale or contribution of assets between an investor and the investor’s associate or joint venture.</li> </ul> <p>GPF members commented on the requirements of IFRS 11 and IFRS 12. GPF members’ comments included:</p> <ul style="list-style-type: none"> <li>a. the reference to ‘other facts and circumstances’ in classifying joint arrangements is too broad and its application is burdensome.</li> <li>b. Example 3 in the Illustrative Examples of IFRS 11 requires a long and complex analysis. In the view of the GPF member who raised this comment, Example 3 does not work properly, and the analysis can result in similar structures being treated differently. The GPF member said the purpose of a joint arrangement is to</li> </ul>	<p>The staff completed the first phase of the PIR. The outreach involved approximately 20 meetings or calls with a broad range of stakeholders (including investors) to learn about experience with application of IFRS10, IFRS 11 and IFRS 12. The Board will discuss the results of this outreach in March 2020 and discuss the next step in the PIR.</p> <p>The staff has also undertaken a review of academic research relevant to the PIR. Available research is not extensive, largely descriptive, and authors reach mixed conclusions.</p>

	<p>collaborate with another partner and the accounting treatment should reflect that purpose.</p> <p>c. the requirement to present summarised financial information of an associate or joint venture is a challenge when the associate or joint venture issues financial statements at a different date from the parent. The requirement may force the parent to disclose unaudited financial information.</p> <p>d. the interaction between IFRS 11 and IFRS 16 <i>Leases</i> should be considered, as evidenced by the recent IFRS Interpretation Committee discussion about a lease arrangement between one of the joint operators and a third party when the leased asset is used by the joint operation.</p> <p>e. information disclosed about an entity’s involvement with unconsolidated structured entities is considered by users to be excessive.</p>	
<p>Agenda Consultation</p>	<p>The purpose of this session was to brief GPF members on the status of the 2020 Agenda Consultation and ask for their help in developing a Request for Information.</p> <p>GPF members discussed:</p> <ul style="list-style-type: none"> <li>a. high-level messages for the Board to consider during the agenda consultation; and</li> <li>b. suggestions for potential projects to include in the request for information.</li> </ul> <p><i>High-level messages</i></p> <p>The chair of the GPF introduced the discussion setting out the following positions, on which GPF members are aligned:</p> <ul style="list-style-type: none"> <li>a. Preparers, in the view of the GPF, still prefer a stable platform, having undergone significant efforts to implement recently issued IFRS Standards. The GPF believes preparers would prefer not to see frequent changes to IFRS Standards, and they need to be convinced that the benefits of any changes exceed the costs.</li> </ul>	<p>The technical staff will report the feedback from GPF members at a future Board meeting and consider their feedback in the Board’s deliberations about which potential projects to include in a request for information.</p>

b. A focus area of the Board's 2022-2026 Work Plan should be to simplify IFRS Standards for the benefit of preparers and users of financial statements. The GPF recommends that the Board should make IFRS Standards clearer and more understandable without adding too much cost for preparers. The GPF suggested that the number of issues the IFRS Interpretations Committee receives could be used as one of the indicators to determine which IFRS Standards might need simplifying.

c. A comprehensive project on intangibles would be welcomed by the GPF. Such a project would be a headline project for the Board's 2022-2026 Work Plan. The GPF acknowledges, however, that it would be a tricky project. If asked to choose, the GPF believes that the preparer community would most likely prioritise simplifying IFRS Standards over a project on intangibles.

*Suggestions for potential projects*

GPF members were asked, in advance of the meeting, to suggest up to three new potential projects to include in the request for information for stakeholder comment—[see Agenda Paper 6A](#). At the meeting, GPF members discussed those potential projects, explaining the problem and their importance. The following potential projects were discussed:

- a. A comprehensive project on the accounting for intangibles; that is, a project that would explore the definition, recognition, measurement and disclosures of intangible assets.
- b. A project to fundamentally review the requirements in IAS 7 *Statement of Cash Flows*. GPF members suggesting this project said that IAS 7 does not accurately reflect how they operate their company and suggested that free cash flows used by management might provide more useful information to users. However, other members disagreed and said the IAS 7 cash flow statement is useful to users and reflects how they review cash flows internally. Consequently, these members cautioned against making changes to IAS 7.

	<ul style="list-style-type: none"> <li>c. A project that fundamentally reviews the accounting requirements in IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>. GPF members suggesting this project said that IAS 29 is challenging to apply and can provide results that are not useful to users as it fails to accurately reflect an entity's financial position.</li> <li>d. A project that either amends IAS 16 <i>Property, Plant and Equipment</i> or introduces a new Standard to allow accretion of value for appreciating assets, for example, artificial intelligence systems.</li> <li>e. A narrow-scope project to clarify the discount rate to be used in discounting post-employment benefit obligations under IAS 19 <i>Employee Benefits</i> in the absence of a deep market for high-quality corporate bonds.</li> <li>f. A project to address how technology companies should account for emerging alternatives to income taxes, for example, digital service taxes.</li> </ul> <p>GPF members suggested additional projects:</p> <ul style="list-style-type: none"> <li>a. clarify the accounting for recognising deferred tax assets arising from unused tax losses, in particular when the requirements in IAS 12 <i>Income Taxes</i> conflicts with regulatory requirements.</li> <li>b. provide additional guidance on classifying costs and expenses in the income statement to reduce diversity in practice and increase the usefulness of the Income Statement.</li> <li>c. provide clarifications on how commercial entities should recognize monetary support from a government to develop public infrastructure when the government is a majority shareholder of this entity (whether a government grant or a shareholder contribution).</li> <li>d. align IFRS Standards, in particular older IFRS Standards with the 2018 <i>Conceptual Framework for Financial Reporting</i>.</li> </ul>	
--	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--