Meeting notes—GPF meeting

1. The Global Preparers Forum (GPF) held a meeting on 5th March 2020 at the London offices of the International Accounting Standards Board (Board).

2. Members discussed the following topics:
   - Primary Financial Statements (paragraphs 3–24)
   - Goodwill and Impairment (paragraphs 25–29)
   - Disclosure Initiative: Targeted Standards-level Review of Disclosures (paragraphs 30–32)

Primary Financial Statements

3. The purpose of this session was to answer questions and seek preliminary feedback on the proposals included in the Exposure Draft *General Presentation and Disclosures* issued in December 2019.

4. The staff provided GPF members with an overview of the proposals including:

   a. subtotals and categories in the statement of profit or loss;

   b. disaggregation;

   c. management performance measures; and

   d. statement of cash flows.

5. GPF members provided comments on each group of proposals as summarised in these notes.

Subtotals and categories in the statement of profit or loss

6. Some members asked how materiality judgements would apply when classifying income and expenses into different categories, and questioned whether non-material items would need to be classified in each category

7. Some members questioned the Board's reason for not defining Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA). The Exposure Draft does not define EBITDA because in the Board's view there is no consensus on how it should be defined or on what EBITDA is intended to represent. Members argued that EBITDA should be defined because it is a widely used measure and the Board's reasoning was inconsistent with its decision to define 'operating profit' because it is an important measure of performance that is inconsistently defined across companies. The staff clarified that the main reason the Board did not define EBITDA was the lack of conceptual underpinning for it, noting further that there are proposals which would facilitate the comparison of EBITDA where disclosed.

8. Some members asked in which category particular income and expenses should be classified, such as interest resulting from a significant financing component under IFRS 15 *Revenue from contracts with customers*, currency exchange differences from intercompany transactions, or net monetary positions in hyperinflationary economies. One member said examples addressing classification in relation to these types of transactions would be helpful.

9. One member commented that the proposals may conflict with their local regulatory requirements. The staff commented that it would be helpful if members could include details in responses to the Exposure Draft.

10. Another member commented that they consider leasing as part of their operating rather than financing activities and expressed concern that the proposal would require interest expense on leases to be classified in the financing category.

11. One member commented that it is not clear from the Exposure Draft whether additional subtotals, for example operating income before depreciation and amortisation, are permitted to be presented in the statement of profit or loss. The staff explained circumstances in which this would be allowed per the proposals in the Exposure Draft, for example entities that report expenses by nature could present operating profit before depreciation and amortisation in the statement of profit or loss.

Disaggregation

12. Many GPF members expressed concerns about the potential cost of providing an analysis of operating expenses by nature. They questioned the usefulness of such an analysis to users. These members noted that how expenses are analysed for management purposes does not necessarily correlate with how they are presented in the statement of profit or loss. However, members supported the Board exploring this proposal through fieldwork.

13. Members also expressed concerns regarding the proposal to prohibit the presentation of operating expenses using a mixture of the *by function* and *by nature* approach. They were concerned that it may prevent entities from presenting line items in the statement of profit or loss which they believed should be given more prominence, for example, goodwill impairment.

14. One member questioned the usefulness of a note disclosing a *by nature* analysis at the group level for multi-segment businesses. This is because the different segments can have different margins and cost structures, making an analysis at this level of limited use.

15. One member suggested that the examples for unusual income and expenses were too simple, which may not be helpful for consistent application in practice. Members said more guidance is needed for unusual income and expenses arising from events that affect multiple reporting periods. Consequently, they suggested the Board should add examples that illustrate more complex circumstances.

16. Another member expressed concern that the proposals for disaggregation seemed to be placing the onus on preparers to determine what was useful to investors and that more guidance was needed in the Standard. The staff clarified that the proposals for disaggregation are intended to help entities determine what information is material.

17. One member suggested requiring disclosure of how unusual items affected non-controlling interests.

Management performance measures (MPMs)

18. A member suggested the Board should require entities to clearly label their MPMs as not being IFRS defined measures rather than including a generic statement that they are not comparable. The member also said the guidance on income tax is too generic.

19. A member suggested the scope of the MPM proposals is too narrow because ratios and single line items such as adjusted revenue are not considered MPMs.

20. A member commented that they would prefer the requirements for changes to MPMs to be consistent with the approach taken by IFRS 8 *Operating Segments* which is not to require restatement of prior periods if there is a change in the MPM and the information required to restate is not available and the cost to develop it would be excessive.

21. One member commented that they perceived an inconsistency between not requiring companies to disclose the income tax effect for individual items in the statement of profit or loss and the proposed requirement to provide this information in the MPM reconciliation.

Statement of cash flows

22. One GPF member commented that mandating the starting point of the indirect reconciliation of operating cash flows would result in costly system changes.

Other comments

23. One member commented that there should be a transition requirement preventing the use of hindsight in disclosing prior period unusual items in the year of application.

Next steps

24. The GPF will continue discussion of the proposals in the Exposure Draft together with the Board's investor consultative body, Capital Markets Advisory Committee (CMAC), at their joint meeting planned for June 2020.

Goodwill and Impairment

25. The purpose of this session was to:

    a. provide GPF members with an overview of the Board's preliminary views that will be included in the discussion paper to be published in March 2020 and provide any clarifications that members may need; and

    b. seek members' advice on how they think the Board should conduct its outreach and fieldwork after the discussion paper has been published.

26. GPF members' requests for clarifications on the Board's preliminary views included:

    a. When does management stop disclosing the subsequent performance of acquisitions—if management is monitoring the acquisition as part of the combined business and the combined business is a level that management monitors as a matter of course as part of how it manages the business (for example an operating segment), does the disclosure go on for ever? The staff and a Board member replied that the Board's preliminary view is that the disclosure should be required as long as the acquisition is being monitored by management. Monitoring the acquisition involves comparing the performance of the acquisition against the objectives and targets management had set at acquisition date. The expectation is that management will at some point stop considering the performance against the historic acquisition targets and will change to monitoring the acquisition as part of how management monitors and manages the overall combined business, for example, based on new targets as part of the annual planning cycle. Companies would stop disclosing then; however, the precise timing is likely to be a matter of judgement.

b. Will there be guidance in the discussion paper to help companies identify the metrics management is expected to disclose if the acquired business is integrated? The staff and a Board member replied that management is expected to disclose the metrics management uses to monitor the performance of the acquisition. The Board adopted a management approach and does not propose guidance or a set of metrics that management should use because it is unlikely that this would be suitable for all acquisitions. If management does not monitor an acquisition, then in the Board's preliminary view, management should disclose this fact and the reason why management doesn't monitor the acquisition.

c. Is the suggested requirement to disclose the amount of synergies in an acquisition only if the synergies are an important part of the acquisition, or is it required for all acquisitions? The staff replied that synergies would need to be disclosed only when they are part of the benefits that management expected when it decided to acquire the business.

d. Would the disclosures about subsequent performance be needed for acquisitions that do not involve goodwill? The staff replied that this would be the case. The disclosures are about the performance of the acquisition regardless of whether the company has recognised goodwill.

e. Would the disclosures be required for asset acquisitions, or only for business combinations? The staff replied that the disclosures on subsequent performance are only for business combinations in the scope of IFRS 3 *Business Combinations*.

27. GPF members made a number of observations on the Board's forthcoming proposals. GPF members will have an opportunity to provide initial thoughts on topics considered in the Discussion Paper at the next GPF meeting, which is a joint meeting with CMAC.

28. GPF members' comments and suggestions on the outreach and fieldwork included:

a. The Board should consider conducting the fieldwork on disclosures with only a small number of companies to enable this to go into more depth, rather than using a larger number of companies and reviewing at a superficial level.

b. In the fieldwork, it is important for the Board to explore what companies know before the deal has completed and then how that knowledge changes after completion, and the impact the change in information can have on management's expectations.

c. The issues around confidentiality would need to be worked through.

d. It may be useful to involve users in the fieldwork.

Next steps

29. The GPF will continue discussion of the Discussion Paper together with the Board's investor consultative body, CMAC, at their joint meeting planned for June 2020.

Disclosure Initiative: Targeted Standards-level Review of Disclosures

30. The staff provided GPF members with an update on the project status in preparation for publication of an exposure draft expected in the second half of 2020. The exposure draft will summarise draft Guidance for the Board to use when developing disclosure sections of IFRS Standards in future, and propose amendments to the disclosure sections of IAS 19 *Employee* Benefits and IFRS 13 *Fair value Measurement* that the Board developed applying that Guidance. The staff highlighted the importance of detailed preparer input into the project after the Board has published the upcoming exposure draft.

31. GPF members asked for clarification on certain aspects of the project. These included:
    a. possible effects of the project proposals on the length of financial statement disclosures;
    b. interaction between the Targeted-standards Level Review of Disclosures project and other Board projects which incorporate disclosure considerations; and
    c. whether the proposals would address the possibility of companies incorporating information outside the financial statements by way of cross-reference.

Next steps

32. The staff will continue discussions with GPF members after the Exposure Draft is published.

Next meeting

33. The next meeting will be a Joint meeting with CMAC on 18th and 19th June 2020.