Meeting Notes—Joint CMAC and GPF Meeting

The Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) held a virtual meeting on 8 October 2020 broadcast by the International Accounting Standards Board (Board).

Members discussed:

- Goodwill and Impairment (paragraphs [1–17])
- Primary Financial Statements (paragraphs [18-33])

Goodwill and Impairment

1. The purpose of the meeting was to discuss:
    a. location of information about the subsequent performance of acquisitions (paragraphs 2–8);
    b. disclosures about synergies (paragraphs 9–14); and
    c. reversal of goodwill impairments (paragraphs 15–16).

Location of information about the subsequent performance of acquisitions

2. The Board's preliminary view in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* is that the Board should require entities to provide users of financial statements with information about the subsequent performance of acquisitions. The Board's preliminary view follows a management approach—entities would be required to disclose the information about the performance of acquisitions that is reviewed by the entity's chief operating decision maker (as defined in IFRS 8 *Operating Segments*). Some stakeholders said this type of information should be included in management commentary rather than the financial statements.
3. Some GPF members said that information about the subsequent performance of acquisitions is available internally. However, most GPF members said that entities should provide information about the subsequent performance of acquisitions in management commentary, and the Board should not require that information to be disclosed in financial statements. GPF members said that this information should be in management commentary because:
    a. the information represents management's view, and conceptually belongs in management commentary;
    b. the information is forward-looking, and disclosing such information in the financial statements may not be subject to 'safe harbour' protections from litigation;
    c. in some jurisdictions management commentary is provided to investors sooner than financial statements;
    d. the information may not be auditable—particularly if it is forward-looking and because these are estimates or ranges; and
    e. a requirement for companies using IFRS Standards to provide this information could put them at a competitive disadvantage compared with companies applying US GAAP or other accounting frameworks.
4. Some CMAC members agreed that, conceptually, the information belongs in management commentary. However, most CMAC members said that the information is necessary for stewardship purposes. CMAC members noted that the Board cannot require entities to present the information in management commentary. Therefore, to ensure that the information is consistently available, and is reliable, the Board should require entities to disclose the information in the financial statements.
5. GPF members said that adding a suggestion in the Board's Practice Statement on management commentary that entities include information about the subsequent performance of acquisitions would help, but that such a suggestion would not change companies' behaviour.

6. One CMAC member also said that the information that interests him is not a forecast of performance. He and other CMAC members said that they are interested in management's targets so that they can better understand what performance management would consider to be a success. This understanding forms part of investors' assessment of management's stewardship.
7. Some GPF members said a requirement to provide information about the performance of acquisitions might affect an entity's behaviour by improving the effectiveness of decisions that the entity makes about acquisitions.
8. One GPF member also said that if the Board wants to improve the governance of companies making investment decisions, it should widen the scope of the project beyond business combinations, and work with regulators and auditors to develop some other reporting document outside the financial statements.

Disclosures about synergies

9. The Board's preliminary view is that it should require companies to provide more quantitative information about material expected synergies in the financial statements for the period when an acquisition occurs. Some stakeholders said that disclosing estimates of synergies is difficult, because these estimates are not always made when acquiring a business.
10. Most GPF members said that they estimate the amount of synergies to justify the price paid when making acquisitions, especially large acquisitions. Some GPF members said that they estimate synergies only for some acquisitions. Some GPF members would not estimate synergies where the strategic rationale of the acquisition is to obtain particular assets and synergies are not expected.
11. Some GPF members said that a non-finance team may make the estimates, perhaps using less robust information than would normally be used to prepare financial statements. The estimates may therefore be harder to audit. Some GPF members also said that quantitative information about expected synergies may be commercially sensitive.
12. GPF and CMAC members distinguished cost from revenue synergies. Some GPF members said that cost synergies are easier to estimate, but other GPF members said that revenue synergies are easier to estimate.
13. CMAC members view cost synergies as more reliable than revenue synergies. Some CMAC members said they often get more information about cost synergies than about revenue synergies. One CMAC member mentioned the importance of distinguishing between revenue and cost synergies, rather than the two types being reported together. Some CMAC members said that information about expected synergies is in management presentations made at the time of the acquisition, but this information can disappear over time.
14. Some CMAC members said the most useful information about synergies would be whether the synergies were achieved.

Reversal of goodwill impairments

15. The Board had heard that permitting companies to reverse previously recognised impairment losses of goodwill would make the impairment test more effective. Those providing this feedback said that permitting reversals of impairments would help to reduce management optimism in the impairment test.
16. GPF and CMAC members said that the ability to reverse goodwill impairments would not provide useful information. GPF members also said that tracking and measuring reversals of impairment would be difficult and costly.

Next steps

17. The Board will consider these comments as part of its redeliberation on the Discussion Paper.

Primary Financial Statements

18. The Board published Exposure Draft *General Presentation and Disclosures* in December 2019 and in March 2020 revised the comment letter deadline to 30 September 2020. The

purpose of the session was to discuss selected topics on which the staff has heard divergent views and ways to address the feedback.

19. The staff provided CMAC and GPF members with an overview of feedback heard during the comment period. The update was followed by breakout sessions to obtain member's views on the following topic:

- Topic 1: Classification of income and expenses from foreign exchange differences and derivatives; and

- Topic 2: Scope of proposals for management performance measures.

20. CMAC and GPF members were divided in two breakout groups. Each group focussed their discussion on one of the two topics.

Classification of income and expenses from foreign exchange differences and derivatives

21. The Board's proposals would require entities to classify foreign exchange differences presented in statement of profit or loss (P&L) in the same category (ie. any one of operating, investing, or financing) as the income and expenses from the items that gave rise to the foreign exchange differences.

22. CMAC and GPF members were asked to discuss:

    a) whether preparers faced challenges implementing the Board's proposals for the classification of foreign exchange differences in the P&L; and

    b) whether possible alternative approaches could address any challenges while continuing to meet users' information needs.

23. GPF members said that in practice there are generally two approaches to managing foreign exchange differences. Entities manage foreign exchange differences either at a decentralised operational level or within a centralised treasury function.

24. When foreign exchange differences are managed at a decentralised operational level, accounting systems are generally designed to collect more detailed information on the individual items giving rise to the foreign exchange differences. This more detailed information would facilitate the application of the Board's proposals.

25. However, when foreign exchange differences are managed within a centralised treasury function, accounting systems are generally designed to capture information on foreign exchange differences at a more aggregated level. This more aggregated level would often not provide detail about the individual items giving rise to foreign exchange differences. Such entities would be required to change systems to capture the information necessary to implement the Board's proposals. GPF members commented that these changes would be costly.

26. Many CMAC members said that a lack of comparability in the classification of foreign exchange differences in the P&L would have no effect on their analyses, provided relevant information was disclosed. Given the preparer's potential difficulties, these members said, entities should be able to classify foreign exchange differences in the P&L in a way that reflects their approach to managing foreign exchange differences.

27. However, some CMAC members said that information about an entity's exposure to foreign exchange risk, how it manages that risk, and whether that risk management is successful is important to their analyses and that current disclosures do not always provide sufficient information. These members said that the Board's proposal to classify foreign exchange

differences in the same categories of the P&L as the income and expenses from the items that gave rise to the foreign exchange differences would contribute to a better understanding of the effects of foreign exchange on an entity's performance.

Scope of proposals for management performance measures

28. The Board's proposals would require entities to identify management performance measures (MPMs), which could only be subtotals of income and expenses.

29. Feedback from stakeholders during the comment period indicated that the proposals for MPM disclosures would result in incomplete information and sometimes duplicate information provided outside financial statements. CMAC and GPF members were asked to discuss practicalities and risks of two potential approaches designed to respond to this feedback. The approaches discussed were:

    a) permitting entities to cross-refer to information about MPMs included in a single note outside financial statements rather than providing disclosures in the financial statements; and

    b) expanding the scope of measures that could meet the definition of MPMs.

30. Both CMAC and GPF members expressed concerns with the cross-reference approach. Specifically:

    a) some GPF members had concerns that the use of cross referencing might not be permitted by regulators in some jurisdictions. One GPF member had a particular concern that auditors would not accept the use of cross-referencing;

    b) some CMAC members said that the use of cross-referencing would make it difficult to distinguish MPMs from other measures provided in reports outside financial statements; and

    c) most CMAC members said they wanted to see all information about MPMs in a single note and were concerned this would not be the case if cross-references were used.

31. Both CMAC and GPF members thought there were merits in considering expanding the scope of MPMs. Specifically,

    a) Free cash flow and return on capital employed were commonly mentioned by both CMAC and GPF members as measures that should be included in the scope. However, one GPF member suggested to wait until a comprehensive review of IAS 7 *Statement of Cash Flows* has been conducted, before including cash flows measures in the scope.

    b) One GPF member said that MPMs should be limited to financial measures such as cash flow measures, balance sheet measures and earnings measures.

    c) One CMAC member suggested that any measure that could be reconciled to subtotals or line items specified in IFRS Standards should be a management performance measure.

32. Members discussed the risks of expanding the scope of MPMs and the possible effect on project timelines from such an expansion. Some CMAC members said that whilst they prefer a wider scope for MPMs, it is important to get the benefits of the project on a timely basis, which may require a narrower scope of MPMs to start with.

Next steps

33. The Board will consider the feedback from members when it redeliberates the proposals discussed.

Next meetings

34. The next CMAC meeting will be held on 11 March 2021. The next GPF meeting is proposed to be held on 12 March 2021.