Summary note of the Accounting Standards Advisory Forum

Held remotely on 9 December and 10 December 2021.

This note is prepared by staff of the International Accounting Standards Board (IASB) and summarises the discussion that took place with the Accounting Standards Advisory Forum (ASAF). A full recording of the meeting is available on the IFRS® Foundation website. [1]

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) UK Endorsement Board (UKEB) 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)

Representatives of the Australian Accounting Standards Board (AASB), a non-member national standard-setter, also attended the meeting.

Intangibles

1. The objective of this session was to ask ASAF members for preliminary feedback on EFRAG's discussion paper *Better Information on Intangibles—Which is the best way to go?*, published in August 2021 and open for comments until 30 June 2022.

2. ASAF members generally agreed that the issues discussed in the paper are relevant and valid, congratulated EFRAG on the work and said the IASB should undertake a comprehensive review of IAS 38 *Intangible Assets*, working with the International Sustainability Standards Board (ISSB) to consider any relationship between intangibles and any future sustainability-related disclosure standards.

Approached considered in the discussion paper

3. The discussion paper considers the advantages and disadvantages of the following approaches to provide better information on intangibles:

   (a) recognition and measurement in the primary financial statements;

   (b) information related to specific intangibles in the notes to the financial statements or in the management report; and

   (c) information on future-oriented expenses and on risk and opportunity factors that may affect future performance in the notes to the financial statements or in the management report.

4. On the best way to go:

   (a) the AcSB and OIC members suggested the IASB initially focus on improving disclosures and consider any amendments to recognition and measurement requirements in the next phase. The AOSSG member said a combination of the approaches in the discussion paper would be the best way to go, but agreed that a phased approach focusing first on disclosures would better inform users of financial statements in the short term, for example, for unrecognised internally generated assets.

   (b) the ARD, ASBJ, FASB and KASB members said disclosures about intangibles should be improved:

      (i) the ARD member said entities should disclose information about material intangibles that do not meet the criteria for recognition in the primary financial statements, with these criteria to be further investigated.

(ii) the FASB member said disclosures about future-oriented expenses and about risk and opportunity factors, such as customer satisfaction, would be useful for users of financial statements.

(iii) the KASB member said disclosures that go beyond the cost of the creation of specific intangibles would best meet the needs of users of financial statements, as such disclosures would enable users to value the key intangibles of an entity, regardless of whether the entity recognises those intangibles in the primary financial statements. The member suggested disclosures could be expanded in stages: first, information about the nature of intangibles, and then information about cash flows generated, or expected to be generated, by intangibles.

(c) the GLASS member said solutions not involving additional disclosures should be considered, noting that financial statements often provide too much information that might make it difficult for users to identify most important information.

5. The AcSB, ANC, ARD, FASB and OIC members acknowledged that information about the fair value of intangibles would be useful to investors. However, they said calculating fair value might be challenging for preparers of financial statements. The AcSB member expressed reservations about the reliability of fair value estimates for some intangibles. The ARD member said a cost model would be appropriate for measuring intangibles, particularly internally generated intangibles that typically do not have an active market. The OIC member agreed that measuring internally generated intangibles might be complex because it might require estimates of the value of an entity.

Other issues to be considered

6. On where information about intangibles should be provided:

(a) the ANC member said it is important to consider which information should be provided as part of an entity's financial reporting and which information should be provided as part of the entity's sustainability reporting. Similarly, the ASBJ member said it is important to clarify which type of information should be provided in the financial statements and outside of the financial statements, particularly for internally generated intangibles.

(b) the ARD member said the location depends on the nature of the information: if it is related to financial information, it should be disclosed in the notes to the financial statements; if it is related to an entity's business plan or future development, it should be disclosed in the management report or any sustainability report.

7. The ARD member said the IASB should provide a clear definition of intangibles and of commercially sensitive information to avoid diversity in the way entities fulfil disclosure requirements.

8. The KASB member said there is a need to investigate the unit of intangibles for reporting. The member added that assembling and combining information for some intangibles might be more useful than providing information categorised by intangible.

Agenda consultations

9. The AcSB, EFRAG, FASB and AASB are seeking feedback from stakeholders on their future agendas. The objective of this session was:

(a) to provide ASAF members with an opportunity to share feedback and decisions, if known, from these consultations on future agendas; and

(b) to discuss how it compares to the feedback on the IASB's Third Agenda Consultation.

FASB's 2021 agenda consultation

10. The FASB published an invitation to comment (ITC) in June 2021 with a comment deadline at the end of September 2021. The ITC asked stakeholders about projects on the FASB's agenda, including whether each project should be prioritised, deprioritised or redesigned, and identified four types of potential projects:

(a) disaggregation of financial reporting information;

(b) emerging areas in financial reporting;

(c) reduction of unnecessary complexity in GAAP; and

(d) improvements to FASB standard-setting.

11. In response to a query by the UKEB member, the FASB member said respondents commented mainly on emerging transactions (such as digital assets and financing linked to environmental, social and governance (ESG) metrics) and on disaggregation of information in financial reporting. Feedback indicates that some projects could be broader in scope (for example, intangibles), but generally suggests that some narrow-scope and targeted improvements, rather than a comprehensive review of GAAP, are required. Respondents also stressed the importance of setting aside resources to address emerging issues and undertake post-implementation reviews of revenue recognition, leases and credit losses requirements.

12. On the disaggregation of financial reporting information, two common themes arose from the feedback, namely that users need:

(a) meaningful information to help them understand the nature of an entity's income and expenses (such as fixed, variable, recurring and non-recurring) and to better forecast future results and cash flows.

(b) information about the jurisdictions that an entity operates in to determine future risks (such as that related to earnings, foreign currencies, income taxes or legislation). However, preparers said the FASB should conduct a cost-benefit analysis before requiring further disaggregation. These preparers said they have received limited requests for more disaggregation, which indicates that users receive sufficient information.

13. On emerging areas in financial reporting:

(a) many respondents to the FASB's consultation were of the view that most of the emerging areas described in the ITC should be considered by the FASB because:

(i) there is no specific topical authoritative guidance; or

(ii) in these respondents' view, the use of GAAP may result in accounting for some transactions that does not reflect the underlying economics of these transactions.

(b) almost all respondents of varied types agreed that adding a project to require or permit an entity to account for specific digital assets at fair value should be a top priority for the FASB. In response to a query by the EFRAG member, the FASB member said:

(i) the feedback focused on the accounting for specific digital assets at fair value, but respondents also suggested other types of assets for the FASB to consider (for example, crypto-lending, stable coins); and

(ii) the FASB has made no decisions about undertaking any project on the most frequently suggested types of cryptoassets.

(c) many respondents ranked a potential project to standardise some key performance indicators (such as EBITDA and free cash flows) as low priority.

14. On reducing unnecessary complexity in GAAP:

(a) specific areas include the guidance for consolidation, distinguishing liabilities from equity and debt modifications.

(b) the guidance for consolidation was frequently ranked as a top priority by respondents to the FASB's consultation—many respondents requested that the FASB look at this area holistically. Materiality considerations for disclosures and classification in the statement of financial position were often ranked as low priority, or respondents said the FASB should not address these matters at this time.

15. On improvements to FASB standard-setting, most respondents said potential enhancements would increase transparency. The respondents suggested the FASB consider:

(a) increasing the accessibility to the Accounting Standards Codification®;

(b) agreeing a better standard interpretation process; and

(c) enhancing the cost-benefit analysis.

16. In response to a query by the AcSB member, the FASB staff said areas for potential improvements mentioned by respondents include:

    (a) accessibility to the Accounting Standards Codification—respondents suggested easier access to the premium subscription, incorporating bases for conclusions and transition resource group materials;

    (b) more transparent cost-benefit analysis—respondents suggested engaging with stakeholders at an early stage, performing field testing earlier and engaging more with users;

    (c) using the Emerging Issues Task Force as an interpretative committee similar to the IFRS Interpretations Committee to provide more timely interpretation without going through the FASB's full due process;

    (d) standardised and clearer drafting of transition requirements; and

    (e) better access to the FASB's materials, for example, by making some materials publicly available.

17. In response to a query by the ANC member, the FASB staff said some users commented on the need for specific disclosure requirements that would help them identify organic growth separately from acquired growth and assess whether an acquisition has succeeded.

18. The FASB will analyse the feedback and change its technical agenda in the first half of 2022. Changes to the technical agenda may include:

    (a) adding new projects to the agenda and the order in which the FASB will address them; and

    (b) reassessing whether projects on the agenda continue to remain a priority.

EFRAG's proactive research agenda

19. EFRAG undertook a combined consultation with its stakeholders on the IASB's agenda consultation and on EFRAG's proactive research agenda. The consultation document was published in May 2021 with a comment deadline of 6 September 2021.

20. The EFRAG member said:

    (a) EFRAG has conducted or is conducting research on intangibles, cryptoassets and cryptoliabilities, and variable and contingent consideration. Soon, EFRAG expects to publish a discussion paper on variable and contingent consideration and a feedback statement on its research on cryptoassets and cryptoliabilities. In response to a query by the FASB member, the EFRAG member said:

(i) EFRAG's discussion paper includes discussions about various types of cryptoassets and cryptoliabilities and attempts to create an inventory of possible uses of cryptoassets.

(ii) feedback indicates cryptoassets and cryptoliabilities are areas of rapid technological and market developments. Many respondents to EFRAG's discussion paper said the development of a comprehensive IFRS Standard that would address the broad scope of cryptoassets and cryptoliabilities held or used for various purposes would be premature at this stage. However, respondents identified a current need for some improvements to financial reporting and said it is unclear:

1. which IFRS Standard an entity should apply to account for some types of cryptoassets and cryptoliabilities;

2. whether some cryptoassets held for investment can be measured at fair value through profit or loss; and

3. whether cryptocurrencies issued by central banks meet the definition of cash.

(b) EFRAG's future research activities will depend on which projects its stakeholders identify as high priority and which projects the IASB will (or will not) add to its work plan (see paragraph 30).

(c) EFRAG could also start any other projects ranked by its stakeholders as high priority—for example:

(i) operating segments;

(ii) going concern; and

(iii) other comprehensive income.

(d) EFRAG expects to continue to focus around one third of its resources on researching financial reporting issues; it can only start two to three research projects within the next three years.

AcSB's strategic plan 2022–2027

21. The AcSB's 2022–2027 draft strategic plan was published in May 2021 with a comment deadline of 15 October 2021. To meet the objective of enhancing the relevance of reported financial and non-financial information, the draft strategic plan proposed three main strategies:

(a) to deliver relevant and high-quality accounting standards (for example, by identifying application issues through research and consultation with the AcSB's stakeholders);

(b) to show leadership in reporting beyond traditional financial statements (for example, by working with the potential Canadian Sustainability Board); and

(c) to raise AcSB's international influence (for example, by sharing the views of Canadian stakeholders globally).

22. The AcSB is deliberating about the feedback and expects to finalise its plan in March 2022. The AcSB member said stakeholders have agreed with the development of the strategic plan. Common themes among responses include:

(a) the need to address emerging issues promptly;

(b) the interconnectedness between financial and sustainability reporting and the role that the AcSB will play; and

(c) maintaining the right balance between the need to reduce unnecessary complexity and the need to ensure that financial reporting requirements are fit for purpose and relevant.

23. In response to a query by the UKEB member, the AcSB member said sustainability reporting has been identified as a high priority by respondents to its draft strategic plan. Respondents said they would like to better understand what the operational implications of the connectivity between financial and sustainability reporting will be.

AASB's agenda consultation 2022–2026

24. The AASB is required to consult on its agenda every five years to gather stakeholder feedback on the potential technical and research projects for profit-oriented, not-for-profit and public sector entities.

25. The AASB staff said:

    (a) a significant portion of the AASB's 2022–2026 work programme will be dedicated:

        (i) to completing projects on its agenda (such as a project to implement IFRS 17 *Insurance Contracts* for public sector entities); and

        (ii) to conducting post-implementation reviews of IFRS Standards and domestic standards.

    (b) the AASB is seeking feedback on three potential projects:

        (i) developing domestic sustainability reporting requirements or guidance;

        (ii) providing guidance for not-for-profit entities to prepare narrative reporting that meets user needs (service performance reporting); and

        (iii) facilitating the development of digital financial reporting practices in Australia.

    (c) the AASB is also seeking feedback on its inactive projects, such as remuneration reporting.

    (d) the initial feedback indicates that:

        (i) sustainability reporting is a high-priority project.

        (ii) service performance reporting is lower priority compared to other projects on the AASB's work plan.

        (iii) views vary on the priority of a potential project on digital financial reporting. Some stakeholders said it is a high priority, others said it is of lower priority than other projects, for example, sustainability reporting.

26. In response to a query by the UKEB member, the AASB staff said:

(a) digital financial reporting is voluntary, but the Australian regulator encourages entities to provide digital financial reports; and

(b) initial feedback indicates the need for further education.

27. In response to a query by an IASB member, the AASB staff said the Financial Reporting Council, the AASB and the Auditing and Assurance Standards Board issued a joint position statement that supports the AASB developing sustainability reporting standards.

IASB's Third Agenda Consultation

28. Papers for this meeting summarised feedback on the IASB's Third Agenda Consultation. The EFRAG member summarised its comment letter on the IASB's Third Agenda Consultation. On the strategic direction and balance of the IASB's activities, the EFRAG member said:

(a) the overall balance of the IASB's activities is about right;

(b) connectivity between financial and sustainability reporting should be a separate main activity; and

(c) the IASB should:

(i) consider increasing its current level of focus on maintenance and consistent application of IFRS Standards, the understandability of the Standards and digital financial reporting;

(ii) finalise the projects on its current work plan and undertake required post-implementation reviews;

(iii) set aside contingent resources for emerging issues; and

(iv) continue to build on the work of other organisations, such as EFRAG and national standard-setters.

29. On the criteria for assessing the priority of potential projects, the EFRAG member said the IASB has proposed the right criteria and should consider the proliferation of non-GAAP measures and the existence of structuring opportunities as indicators of a deficiency in financial reporting.

30. On the potential projects for the IASB's work plan, the EFRAG member said EFRAG stakeholders identified as high priorities, the projects on:

(a) intangibles;

(b) sustainability in financial reporting, starting with climate (including connectivity with the ISSB and pollutant pricing mechanisms);

(c) cryptoassets and cryptoliabilities;

(d) the solely payments of principal and interest test for instruments with ESG features (EFRAG's stakeholders suggested that the IASB address this issue separately as a follow-on project from the Post-implementation Review of IFRS 9 *Financial Instruments*);

(e) discontinued operations and disposal groups;

(f) statement of cash flows and related matters; and

(g) variable and contingent consideration.

31. The ASBJ member:

(a) said the ASBJ has not undertaken a formal agenda consultation, but it has a Standards Advisory Council that provides recommendations and informs the ASBJ's thinking in deciding which projects should be added to its work plan. Due to the covid-19 pandemic, the ASBJ has not added any new projects to its work plan and is working on projects relating to security token offerings (STOs) and initial coin offerings (ICOs). Research indicates that the volume of transactions involving STOs and ICOs has not increased as much as expected. Therefore, the ASBJ is assessing the need for a standard-setting project for these types of transactions.

(b) welcomed many respondents to the IASB's consultation saying that a project on intangibles is high priority and stressed the importance of defining that project.

32. The AcSB member said that, during the covid-19 pandemic, stakeholders appreciated the AcSB's willingness to address emerging issues and found the materials and guidance that the AcSB produced useful. However, stakeholders' feedback to the AcSB's strategic consultation has highlighted the need for national standard-setters to

consider how to balance timely progress on active projects with the need to respond to emerging issues.

33. One IASB member said that, at its November 2021 meeting, the IASB asked the staff to develop a strategy for deciding whether to take further action based on feedback from post-implementation reviews. That strategy will be discussed at a future IASB meeting. This IASB member also commented on the timing of post-implementation reviews—that is, whether and how transition resource groups, which assist in identifying and addressing early application issues, affect the timing of post-implementation reviews. In this IASB member's view, it is useful to allow sufficient time for practice to mature and enable academics to research how a new Standard or major amendment to a Standard works before starting a post-implementation review.

34. The IASB member commented on a tension between the feedback on the balance of the IASB's activities (which recommends the IASB decrease its current level of focus on new IFRS Standards and major amendments to IFRS Standards) and the number of potential projects that respondents ranked as high priority.

35. The UKEB member summarised the priorities indicated by her stakeholders, including:

    (a) intangibles;

    (b) climate-related risks;

    (c) statement of cash flows and related transactions;

    (d) sustainability reporting, including the interaction between the IASB and the ISSB; and

    (e) digital financial reporting.

36. The UKEB member said the IASB should consider partnering with national standard-setters to research some of these issues, which could help alleviate some of the IASB's capacity constraints. One IASB member said the IASB needs to be mindful of the limited capacity of its stakeholders.

37. The UKEB member also commented on post-implementation reviews and said that, in the UK, post-implementation reviews are required for significant changes in

accounting. These reviews are usually undertaken five years after the effective date of the change.

38. The PAFA member said he agrees with the IASB's strategic direction and its priorities are aligned with priorities suggested by his stakeholders. The member asked for clarification about how the feedback on a potential project on foreign currencies may affect the IASB's ongoing work on its Lack of Exchangeability project, which is an important project for PAFA stakeholders. An IASB member explained that the feedback on the potential project will not affect the IASB's progress on its Lack of Exchangeability project.

39. In response to a query by the ANC member, the staff explained that:

    (a) the Request for Information did not ask a specific question about projects on the IASB's current work plan, and the underlying presumption in the Request for Information is that the IASB will continue the projects on its current work plan;

    (b) only some respondents said the IASB should reassess the priority and necessity of projects on its current work plan and decide whether any project should be put on hold, or even stopped, to free up resources for new, more important projects;

    (c) the feedback on individual projects will be shared with the respective project teams and will be considered part of the overall feedback from stakeholders on these projects in any recent (or future) consultation; and

    (d) the summary of other comments received from respondents had not been discussed by the IASB yet.

40. The OIC member:

    (a) said feedback on potential projects generally reflects his expectations. This member expressed support for EFRAG's work on variable and contingent consideration and said the OIC will continue its project on separate financial statements, even though these two projects were not rated as high priority by many respondents to the IASB's consultation.

    (b) commented on the outcome of the Post-implementation Review of IFRS 11 *Joint Arrangements* and said stakeholders in his jurisdiction raised various concerns about how to consider all facts and circumstances in assessing joint control of an arrangement.

41. The AOSSG member said:

    (a) the IASB should clarify how it will prioritise potential projects when a project might affect other projects;

    (b) a potential project on intangibles is a high priority and should consider the varied accounting treatment of some acquired and internally generated intangibles; and

    (c) the IASB should consider reassessing the priority of some projects on its current work plan.

42. In response to queries by the staff:

    (a) the AcSB member clarified that in her jurisdiction the priority of digital financial reporting is within the remit of securities regulators;

    (b) the AASB staff said the AASB is considering expanding the scope of its research project on the understandability of financial reporting requirements; and

    (c) the EFRAG member said EFRAG suggested the IASB focus more on the understandability and accessibility of IFRS Standards, but not as a separate project.

Agenda planning and feedback from the previous ASAF meeting

43. The objective of this session was to discuss the proposed topics for the next ASAF meeting, which is scheduled to take place virtually on 31 March and 1 April 2022. ASAF members agreed with the proposed topics.

44. Besides the proposed topics, the EFRAG member suggested discussing the projects on Primary Financial Statements and Dynamic Risk Management, depending on how the IASB's discussions develop in the next months.

Goodwill and Impairment

45. The objective of this session was to update ASAF members on the IASB's recent discussions, and to obtain feedback from ASAF members on staff examples illustrating the information the staff expect an entity to disclose when applying the IASB's preliminary views about adding disclosure requirements to IFRS 3 *Business Combination*s. The staff asked for ASAF members' views on their discussions with their stakeholders about:

    (a) whether the aggregation of information in the disclosures section of the staff examples, compared to the background section, achieves the right balance between providing useful information to users of financial statements and not disclosing information that is too commercially sensitive (paragraphs 46–56);

    (b) whether, considering legislation and regulations in their jurisdictions, any information in the disclosure section would raise significant additional litigation risk if disclosed in financial statements and why (paragraphs 57–61); and

    (c) other comments on the staff examples (paragraphs 62–66).

Commercial sensitivity

General feedback

46. The AcSB and EFRAG members said the staff examples were useful but simplistic illustrations. The EFRAG member said it would be useful to include examples that address concerns about commercial sensitivity by including commercially sensitive information in the underlying fact patterns. For example, illustrating a fact pattern in which an entity acquires a business to obtain sufficient market power to set monopolistic prices.

47. The AcSB member said there is a natural tension between feedback from preparers and users. The AcSB member also said that, to try to bridge that tension, it might be worth considering statements management makes about a business combination in investor roadshows.

Preparer feedback

48. The ANC, AOSSG, ASBJ, KASB and OIC members reported that preparers in their jurisdictions said some or all information in the staff examples is, in their view, commercially sensitive. The ANC member said preparers in his jurisdiction expressed concern that information in the staff examples could provide competitors with insights into the entity's strategy and potential future business combinations.

49. The ASBJ member said the staff examples helped preparers in his jurisdiction better understand the IASB's preliminary views and reduced some concerns about commercial sensitivity. However, the ASBJ member said some concerns about commercial sensitivity remain.

50. ASAF members mentioned aspects of the staff examples that preparers in their jurisdictions said could be commercially sensitive:

    (a) numerical information about management's objectives;

    (b) non-financial metrics;

    (c) market share information;

    (d) information about employment;

    (e) quantitative information about expected synergies; and

    (f) qualitative information about synergies because such information is often perceived as relating to redundancies.

51. The ARD member said quantitative information could be commercially sensitive. The KASB member said it would be possible to disclose qualitative information but preparers would be sceptical as to whether qualitative information alone would be useful to users.

52. The AcSB and ARD members said it is difficult to determine whether the preliminary views would require the disclosure of commercially sensitive information because whether information is sensitive depends on the facts and circumstances.

53. The PAFA member said:

    (a) the small number of comments that PAFA received were positive.

(b) it is worth considering similar feedback the IASB received during the development of IFRS 3 and IFRS 8 *Operating Segments*. In both cases preparers said the information disclosed when applying those Standards could be commercially sensitive, but entities have since been able to apply those Standards without disclosing commercially sensitive information.

54. Some ASAF members commented on whether there is a difference between assessing the commercial sensitivity of information about management's targets in the year of acquisition and assessing historical information about whether those targets were achieved. The ANC and OIC members said there is no difference. However, the AcSB member said it depends—information about a successful business combination in future periods is likely to be less commercially sensitive. The AcSB member also said that, in her experience, requiring disclosure of information about business combinations can invite strong reactions, because it is an area where it can be obvious whether management has made a good or bad decision.

User feedback

55. The ARD, ASBJ and EFRAG members said the information in the staff examples is useful to users. The EFRAG member said users consulted by EFRAG said this type of information would also be useful for investments other than business combinations, for example, if an entity starts to operate in a new market.

56. The KASB member said users in his jurisdiction were sceptical as to whether the information in the staff examples would be useful because those users were concerned that the information might be unreliable.

Litigation risk

57. The AcSB and FASB members said 'safe-harbour' protections exist in their jurisdictions. 'Safe-harbour' provides entities with protection from litigation by users of forward-looking information published in some documents other than financial statements.

58. The ASBJ, ANC and ARD members said no 'safe-harbour' protections exist in their jurisdictions. However, the ANC member said some information could attract additional litigation risk if disclosed because of particular sensitivities—for example,

information about earn-out clauses or information about synergies that could provide employees with sensitive information about planned restructurings.

59. ASAF members discussed whether information about management's targets for a business combination differs from other information in financial statements, such as information about assumptions used in the impairment test in IAS 36 *Impairment of Assets* or the expected credit loss model in IFRS 9 *Financial Instruments*.

60. The FASB member said there is a difference between accounting estimates and management's targets in a business combination because accounting estimates directly underpin the measurement of an item in financial statements, while management's targets do not. However, one IASB member said management's targets in a business combination are the assumptions underpinning the price management would pay for that business combination. That price is reflected in the value of the assets and liabilities recognised because of the business combination, including goodwill.

61. The KASB member said management's targets in a business combination are unlikely to be management's best estimate of what is likely to result from the business combination—management's targets are an ambition and could be optimistic. The KASB member said management's targets are not a neutral reflection of the expected performance of the business combination. Accordingly, management's targets are not faithfully representative and cannot be considered useful information when applying the *Conceptual Framework for Financial Reporting*. One IASB member said the preliminary view is intended to require an objective and neutral assessment of what management assumed when acquiring the business.

Other comments

62. The ANC member said the IASB should consider that the performance of business combinations could be affected by events outside management's control. The ANC member suggested following a principle-based approach without being too specific. That principle-based approach should focus on the key success factors of a business combination, rather than detailed information, because circumstances change and business units evolve.

63. The ARD member reported feedback that:

(a) the staff examples focused on business combinations in which much of the recognised goodwill balance represents expected synergies. However, not all business combinations are done to obtain material synergies.

(b) it might be difficult to disclose quantitative information about management's objectives if management does not make decisions using quantitative information.

64. The AcSB member said that, if the IASB required the disclosure of 'non-GAAP' information, that information would become part of GAAP and, therefore, the IASB would need to provide guidance on how to measure and audit that information.

65. The EFRAG member reported feedback that the information required when applying the preliminary views is similar to value creation and sustainability information and, therefore, could be included in management commentary. The ARD member also said some feedback indicated a preference for disclosing forward-looking information in documents other than financial statements.

66. The AcSB, AOSSG and EFRAG members said they heard concerns about the auditability of the information. However, the EFRAG member said users EFRAG has consulted said it was important that the information disclosed when applying the preliminary views be audited. The FASB member suggested the IASB communicate with auditors because they might be exposed to additional risk if required to audit information they do not currently audit, for example, information about an entity's market share.

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures

67. The objective of this session was to seek ASAF members' preliminary views on the scope of the IASB's Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (draft IFRS Standard) published in July 2021.

Support for the proposed scope

68. The AcSB, ANC, KASB and UKEB members said their stakeholders generally agreed with the proposed scope of the draft IFRS Standard:

(a) the ANC member said the approach in the draft IFRS Standard is new and, therefore, agreed that the IASB should test the draft IFRS Standard with the smaller set of entities, as proposed, before considering extending the scope to other entities;

(b) the AcSB and UKEB members indicated that stakeholders within their jurisdictions generally agreed with the draft IFRS Standard because locally domiciled parent companies with international subsidiaries and others would be able to reduce the costs of preparing financial statements; and

(c) the KASB member said retaining the scope of the draft IFRS Standard as proposed in the Exposure Draft would ensure that the project maintains its objective.

69. The EFRAG member said stakeholders' views varied on the proposed scope of the draft IFRS Standard. However, those stakeholders who agreed with the proposed scope expressed similar views as those of the ANC. Those stakeholders are also of the view that extending the scope to all entities without public accountability would delay the IASB's progress on this project.

70. The AOSSG representative said although some AOSSG jurisdictions have preliminary indicated support, the support of one AOSSG jurisdiction is conditional on the application of the draft IFRS Standard remaining optional when finalised. The conditional support is premised on the view that there are benefits, particularly for material subsidiaries, to provide all IFRS disclosures especially when the parent is merely an investment holding entity. Another AOSSG jurisdiction has received mixed views from its stakeholders.

Extending the scope to all entities without public accountability

71. The AOSSG representative said three member jurisdictions recommend the IASB extend the scope of the draft IFRS Standard to all entities without public accountability:

    (a) one AOSSG jurisdiction stated that all entities without public accountability in the jurisdiction are permitted to provide fewer disclosures when applying the local framework for cost-benefit reasons;

    (b) one AOSSG jurisdiction said the approach used by the IASB in developing the draft IFRS Standard (and thus its disclosure requirements) was suitable for all entities without public accountability, rather than just subsidiaries without public accountability; and

    (c) one AOSSG jurisdiction said its stakeholders raised no significant concerns about the disclosure requirements in the *IFRS for SMEs* Standard and, therefore, the scope of the draft IFRS Standard should not be restricted to subsidiaries without public accountability.

72. Similarly, the AOSSG representative said one AOSSG jurisdiction suggested extending the scope to include all entities without public accountability as this would facilitate the entities' transition to full IFRS Standards in the future.

73. The EFRAG member said stakeholders who agreed with extending the scope of the draft IFRS Standard said this extension would facilitate the adoption of IFRS Standards and thus improve comparability within the European Union.

74. The PAFA member said the scope of the draft IFRS Standard may be a bit too narrow. The member said the scope of the draft IFRS Standard should be extended to include associates and joint ventures.

75. The ANC member stated that the IASB should not extend the scope of the draft IFRS Standard to all entities without public accountability because it was not the IASB's intention and mindset to do so when it developed the draft IFRS Standard.

76. The AcSB and ANC members agreed that the IASB should decide whether to extend the scope of the draft IFRS Standard separately. However, the ANC member also noted that feedback from the IASB's Third Agenda Consultation did not indicate

whether a reduced disclosure IFRS Standard for entities without public accountability should be a priority.

Not specifying the scope of the draft IFRS Standard

77. The ASBJ member said the IASB should not define the scope of the draft IFRS Standard; instead, local regulators or authorities in each jurisdiction should decide which entities would be eligible to apply it. The ASBJ member said allowing local regulators or authorities to define the scope of the draft IFRS Standard would enable an entity to apply the draft IFRS Standard as the entity's secondary GAAP, regardless of whether the entity has public accountability.

78. The KASB member supported the scope of the draft IFRS Standard, however the member disagreed with the draft IFRS Standard being optional. The KASB member suggested that the IASB allow local regulators or authorities in each jurisdiction to decide whether to permit or require application of the draft IFRS Standard.

Cost-benefit assessment

79. Some ASAF members commented on the costs and benefits of applying the draft IFRS Standard.

80. The UKEB member said the proposed scope of the Standard would lead to cost savings and reduce group-reporting costs, especially for parent companies with international subsidiaries. In balancing cost savings for preparers with user information needs, the UKEB member also mentioned the need to consider the potentially varied user information needs of wholly-owned subsidiaries and non-wholly-owned subsidiaries.

81. The AOSSG member said three AOSSG jurisdictions shared concerns that cost savings of the draft IFRS Standard may be limited because some parent entities would still require subsidiaries to provide all IFRS disclosures or use a group-reporting template. The ARD member expressed similar concerns.

Disclosure Initiative: Targeted Standards-level Review of Disclosures

82. The objective of this session was to share initial feedback from the IASB's outreach on the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot*

Approach (Exposure Draft) and to hear initial feedback from ASAF members' jurisdictions on the IASB's proposals, including on:

(a) the Guidance for the Board;

(b) new disclosure requirements for IFRS 13 *Fair Value Measurement*; and

(c) new disclosure requirements for IAS 19 *Employee Benefits*.

Guidance for the Board

83. ASAF members expressed agreement with the general direction of the project—in particular, the focus on user needs and developing overall and specific disclosure objectives. The AcSB member added that preparers, auditors and regulators will adapt to using disclosure objectives over time, and that these parties will have to work together more effectively.

84. However, ASAF members expressed concerns about the proposal to describe most items of information that could meet specific disclosure objectives as 'not mandatory':

(a) the ANC, AOSSG, EFRAG, FASB and PAFA members questioned whether the proposals would lead to the expected behavioural change. These members thought that entities would apply the non-mandatory items of information like a checklist, either because they would interpret the items as mandatory or because of difficulties in making materiality judgements. The ANC and EFRAG members said group entities would need to provide their subsidiaries with a complete checklist of necessary information for internal reporting, before deciding which information is material to the group.

(b) the AOSSG, ARD, EFRAG and FASB members said the absence of prescriptive requirements to disclose items of information may impair users' ability to compare entities.

(c) the ANC, ARD, KASB, PAFA and UKEB members were concerned about the implications of the proposals for audit and enforcement. They said:

(i) it might be difficult for entities to justify their judgements to auditors and regulators;

(ii) entities, auditors and regulators might have varied views on what information is material and the lack of prescribed disclosures might lead to conflict between these parties; and

(iii) auditors and regulators might interpret the ‘non-mandatory’ items of information as mandatory and treat them as a ‘disclosure checklist’.

(d) the ANC, AOSSG, EFRAG, FASB and UKEB members expressed concerns about the practical ability of smaller entities to apply the proposals.

(e) the AOSSG and FASB members expressed concerns about the effects of the proposals on electronic reporting. These members thought the lack of prescriptive requirements might lead to inconsistent electronic tagging of information or impair users’ ability to extract information electronically.

(f) the ASBJ member said there is insufficient clarity in the Guidance for the Board about which user needs should be catered for in the financial statements. The member added that it would be onerous for entities to address every user need in their financial statements.

(g) the ANC member said questions have been raised about how the proposals relate to IFRS Standards, the Management Commentary project and sustainability reporting.

85. ASAF members also made suggestions:

(a) the ANC, EFRAG, FASB and UKEB members suggested the IASB develop, for each disclosure objective, a set of information items that an entity will be required to provide, at a minimum. The UKEB member added that this approach could facilitate transition to the fully objectives-based approach proposed in the Exposure Draft over time.

(b) the ARD, EFRAG and KASB members suggested the IASB develop application guidance to help entities apply materiality judgements to disclosures. The KASB member added that the IASB should also provide more illustrative disclosure examples. The AcSB member encouraged the IASB to assess how the proposals interact with paragraphs 122–125 of

IAS 1 *Presentation of Financial Statements*, which require disclosures about management's judgements and sources of estimation uncertainty.

(c) the ASBJ member encouraged the IASB to work with auditors and regulators to move this project forward, adding that the intended change cannot be achieved merely by changing accounting standards.

(d) the AOSSG member said one AOSSG jurisdiction suggested the IASB use the proposed Guidance for the Board only when developing future Standards and not apply it to issued Standards. Instead, the member said the IASB should review the Standards' disclosure requirements during post-implementation reviews. However, the member added that the IASB should continue to use prescriptive disclosure requirements.

(e) the KASB member suggested a transition period of five years with early application permitted. This would allow entities to adapt to the new approach over time.

(f) the KASB member also suggested the IASB include the Guidance for the Board within IFRS Standards rather than it being an internal document.

86. Regarding costs, the EFRAG member expected there to be a one-off cost when entities apply the proposed new approach for the first time but reported varied views from EFRAG stakeholders about additional costs. The EFRAG and ARD members added that additional costs might arise due to extended discussions with auditors and regulators. The ANC member thought the costs of the proposals would outweigh the benefits, suggesting that proper application of the materiality requirements in IAS 1 could achieve the same financial reporting outcome.

New disclosure requirements for IFRS 13 *Fair Value Measurement*

87. The AcSB member expressed agreement with the proposals and said users particularly welcomed enhanced Level 2 disclosures around measurement uncertainty. Conversely, the EFRAG member said some stakeholders said the introduction of Level 2 disclosures around measurement uncertainty is unnecessary.

88. The ANC and EFRAG members commented on the proposed disclosure objective to require an entity to disclose information that enables users to understand the alternative fair value measurements using inputs that were reasonably possible at the

end of the reporting period. These members said stakeholders prefer the current requirement to disclose sensitivity analysis and question how users would interpret and use information about alternative fair value measurements. The EFRAG member added that disclosure of alternative fair value measurements brings an additional layer of judgement—entities would have to judge which fair value measurement to recognise and which alternatives to disclose.

89. The ANC member also commented on the proposed disclosure objective relating to assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes. The member said it is not clear why users would want information about the fair value of those items and requested greater clarity about the purpose of this objective and the circumstances in which entities should disclose information in response to the objective.

New disclosure requirements for IAS 19 *Employee Benefits*

90. The AcSB member expressed agreement with the proposals, noting that stakeholders find IAS 19 disclosures complex and difficult to understand. The member added that users particularly appreciate the specific disclosure objective requiring an entity to disclose information about the expected future cash flow effect of defined benefit plans.

91. The AcSB and EFRAG members expressed concern about the omission of a sensitivity analysis from the proposed requirements, commenting that sensitivity information is important to users.

92. The ANC and EFRAG members said:

   (a) it is unclear from the proposals why users want information about future payments to members of defined benefit plans that are closed to new members; and

   (b) the proposals for employee benefits other than defined benefit plans are too generic and may result in boilerplate disclosures.