Summary note of the Accounting Standards Advisory Forum

Held remotely on 28–29 June 2021.

This note is prepared by staff of the International Accounting Standards Board (Board) and summarises the discussion that took place with the Accounting Standards Advisory Forum (ASAF). 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)

Business Combinations under Common Control

1. The objective of this session was to share initial feedback from the Board's outreach and to hear initial feedback from ASAF members' jurisdictions on:

   (a) when the acquisition method and a book-value method should be used to report business combinations under common control; and

   (b) how those methods should be used.

Which method to apply

2. ASAF members shared the following initial feedback about the types of business combinations under common control common in their jurisdictions:

   (a) the AcSB, AOSSG, EFRAG, FASB, GLASS and PAFA members said many business combinations under common control in their jurisdictions are tax motivated; and

   (b) the AcSB, AOSSG, ARD, EFRAG, FASB, PAFA and UKEB members said many business combinations under common control in their jurisdictions are internal reorganisations undertaken, for example, to prepare for an initial public offering (IPO), to reallocate resources within a group or to simplify the group structure.

3. On the principle of applying the acquisition method to combinations that affect non-controlling shareholders, subject to the cost-benefit trade-off and other practical considerations, and applying a book-value method in all other cases:

   (a) the AcSB, AOSSG, EFRAG, GLASS, KASB, PAFA and UKEB members said the majority of their stakeholders agreed with this principle.

   (b) the ARD member said most stakeholders in her jurisdiction disagree with this principle and suggest applying a book-value method to all business combination under common control because of their view of the economic substance of such transactions, the controlling party's information needs and practical difficulties that may arise from using the acquisition method (for example, estimating fair values). The ASBJ member said his preliminary view is that a single method should apply to all business combinations under common control, with a preference for a book-value method considering the controlling party's information needs. The FASB member expressed a view that the existence of non-controlling shareholders in the receiving entity is not sufficient to trigger the use of the acquisition method.

(c) the ANC member said stakeholders in his jurisdiction have various views about which method to apply. He said those who advocate applying a book-value method to all transactions are mainly preparers. They advocate a book-value method for cost-benefit considerations and for consistency with US GAAP.

(d) the UKEB member said the UKEB is consulting its stakeholders on whether entities should be allowed to elect the acquisition method for all business combinations under common control.

4. On the related party exception to the acquisition method and the optional exemption from the acquisition method:

(a) the AcSB, ANC and PAFA members said the stakeholders in their jurisdictions support both the related-party exception and the optional exemption. The UKEB member agreed with the optional exemption.

(b) the AOSSG, ARD, EFRAG and OIC members said some of the stakeholders in their jurisdictions expressed concerns about application difficulties of the optional exemption (for example, it may be difficult to confirm that none of non-controlling shareholders objects to a book-value method).

(c) the GLASS member did not support the optional exemption for privately held entities.

(d) the AOSSG, EFRAG and UKEB members questioned whether the related-party exception is appropriate. They suggested that related parties may also need fair value information and should therefore be able to object to the use of a book-value method as other non-controlling shareholders would be able to do.

(e) the PAFA member suggested requiring entities to provide disclosure in the notes when they use the exemption or the exception.

5. ASAF members shared the following additional feedback from their outreach about which method to apply and the scope of the project:

(a) the AcSB, ANC, AOSSG and EFRAG members said some stakeholders in their outreach commented that the focus on non-controlling shareholders as the single principle for selecting which method to apply may be limited and insufficient. These stakeholders suggested other criteria should be considered, for example, whether the transaction is conducted at fair value.

(b) the AOSSG member said the Board should consider further information needs of holders of complex financial instruments containing both debt-like and equity-like features. The member stated that such instruments are common in privately held entities in AOSSG jurisdictions, in particular those preparing for an IPO.

(c) the EFRAG member suggested reversing Step 1 and Step 2 of the Board's decision tree for selecting the measurement method. EFRAG is also consulting on expanding Step 1 (which is Step 2 in the Board's decision tree) to include entities with publicly traded debt or public accountability more broadly.

(d) the KASB member suggested an alternative—to simplify the Board's decision tree without affecting the outcome of the decision tree.

(e) the EFRAG and OIC members said some stakeholders would like the Board to consider the reporting implications of business combinations under common control for the separate financial statements of a receiving entity.

(f) the ANC, EFRAG and OIC members asked the Board to clarify how to identify the acquirer for accounting purposes and how to identify the receiving entity. The ANC and EFRAG members also asked the Board to clarify what 'affects non-controlling shareholders' means. The ANC member suggested clarifying why the Discussion Paper refers to 'non-controlling shareholders' rather than 'non-controlling interests'.

(g) the EFRAG member said other common control transactions (for example, the transfer of a group of assets) are important and need to be considered comprehensively in the future.

How to apply the acquisition method

6. The AcSB, ANC, EFRAG, OIC and UKEB members said the majority of their stakeholders agreed with the Board's preliminary view that the receiving entity should not be required to identify, measure and recognise a distribution from equity.

7. On the Board's preliminary view that the receiving entity should recognise any 'underpayment' as a contribution to equity, not as a gain on a 'bargain purchase':

   (a) the AcSB, OIC, PAFA and UKEB members agreed with the Board's preliminary view. The ARD member also agreed with the Board's preliminary view but expressed a concern about the Board taking a different approach to distributions and to contributions.

   (b) the ANC and ASBJ members disagreed with the Board's preliminary view. The ANC member said a bargain purchase may include an element of underpayment but may also include other elements (for example, expected restructuring costs not recognised as a liability). In his view, it would be rare to transfer wealth to non-controlling shareholders, so a receiving entity should recognise a gain on a bargain purchase in profit or loss as required in IFRS 3 *Business Combinations.*

   (c) the EFRAG member said EFRAG expects feedback on this question in its draft comment letter, but so far most stakeholders agree with the Board's preliminary view and a minority disagree.

8. The AOSSG member said most AOSSG stakeholders did not express strong views on either contributions or distributions, but stakeholders in one AOSSG jurisdiction suggested either (a) recognising both contributions and distributions in equity or (b) recognising neither contributions nor distributions in equity.

9. The ANC, AOSSG, ARD, EFRAG, OIC and PAFA members said their stakeholders agreed with the Board's views on disclosure when an entity applies the acquisition method. The ANC member said the agreement of stakeholders in his jurisdiction was subject to the comments included in the ANC's comment letter on the Discussion Paper of the Goodwill and Impairment project.

10. The AcSB member said some stakeholders in her jurisdiction raised concerns about future impairment of goodwill that arises from business combination under common

control. The UKEB member said the UKEB is also exploring how goodwill should be treated.

How to apply a book-value method

11. On the Board's preliminary view that assets and liabilities received should be measured at the transferred entity's book values:

    (a) the AOSSG member said most stakeholders in AOSSG jurisdictions agreed with the Board's preliminary view.

    (b) the ANC and ARD members said most of their stakeholders disagreed with the Board's preliminary view and supported using the controlling party's book values. The EFRAG member said EFRAG expects feedback on this question in its draft comment letter, but so far most stakeholders disagree with the Board's preliminary view and support using the controlling party's book values.

    (c) the AOSSG and OIC members said some stakeholders in their jurisdictions prefer using the controlling party's book values, especially when the combination happens after an external acquisition.

    (d) the AcSB member disagreed with requiring entities to use the transferred entity's book value and suggested the Board provide at least an option to use the controlling party's book values for consistency with US GAAP. The UKEB member supported an option to use the controlling party's book values.

    (e) the PAFA member said it would not always be appropriate to use the transferred entity's book values, which may bear no resemblance to the basis on which the transferred entity had been acquired into the group.

    (f) the AOSSG member suggested there could be practical challenges in using the transferred entity's book values if the transferred entity does not prepare financial statements applying IFRS Standards. The member suggested providing guidance on how book values applying IFRS Standards should be determined or allowing the use of the controlling party's book values for such cases.

12. On the Board's preliminary view that the receiving entity should not restate pre-combination information in the primary financial statements:

(a) the EFRAG, OIC and PAFA members agreed with the Board's preliminary view. The EFRAG member said EFRAG support was tentative and that EFRAG stakeholders had various views. The PAFA member said that if disclosures are provided, the entity need not restate information in the primary financial statements.

(b) the ANC member disagreed with the Board's preliminary view and suggested using a retrospective approach, saying it would be easier to apply because the acquisition date does not matter under that approach.

(c) the AcSB, ARD and UKEB members suggested giving entities an option for using the prospective or retrospective approach. The AcSB member said this option should be available for entities planning an IPO. The AOSSG and EFRAG members said some stakeholders also agree that entities should have this option.

(d) the AcSB, AOSSG, ARD and FASB members said their stakeholders expressed a view that restating pre-combination information could provide more relevant and comparable information for assessing trends of the combined businesses than a prospective approach, which is particularly useful in pre-IPO scenarios. The AOSSG, ARD and UKEB members said a retrospective approach is required by some regulators in some cases, for example in pre-IPO scenarios.

13. The PAFA member said it is important for entities to provide enough context for disclosures under a book-value method to be useful.

Third Agenda Consultation

14. The objective of this session was to seek ASAF members' views on the objectives of the Request for Information on the Third Agenda Consultation.

Strategic direction and balance of the Board's activities

15. The Board's main activities include:

(a) developing IFRS Standards and major amendments to IFRS Standards;

(b) maintaining IFRS Standards and supporting their consistent application;

(c) developing and maintaining the *IFRS for SMEs* Standard;

(d) supporting digital financial reporting by developing and maintaining the IFRS Taxonomy;

(e) improving the understandability and accessibility of the Standards; and

(f) engaging with stakeholders.

16. ASAF members were asked whether the Board should:

(a) increase, leave unchanged or decrease its current level of focus on each main activity; and

(b) undertake any other activities within the current scope of the Board's work.

17. The ARD, EFRAG, FASB and KASB members said the overall balance of the Board's activities is appropriate. However, ASAF members provided suggestions to rebalance the level of focus on each activity.

18. The ANC, EFRAG, FASB and UKEB members said the Board should increase the focus on digital financial reporting because it is becoming important. The ANC member added that the Board should ensure that the increased focus on digital reporting does not result in a more rules-based approach to standard-setting and the Board should reduce the use of entity-specific elements (extensions) among entities that apply IFRS Standards. The FASB member said increasing the focus on this activity might require additional specialised expertise.

19. The AOSSG, ARD and KASB members said the Board should increase the focus on understandability and accessibility. The KASB member added that this activity is important for non-English speaking jurisdictions whose stakeholders often experience difficulties in understanding the requirements in IFRS Standards.

20. The AOSSG and ARD members said the Board should increase the level of focus on maintenance and consistent application of IFRS Standards, particularly by providing educational materials on recently issued Standards.

21. The UKEB member said the Board should reduce its focus on the *IFRS for SMEs* Standard, because the Standard, as issued by the Board, is not widely used in the UK.

22. ASAF members had contrasting views on whether the Board should change its focus on projects that develop IFRS Standards and major amendments to IFRS Standards. The ANC, AOSSG and ARD members said the Board should reduce the level of focus on this activity, because, according to the ARD member, demand for new Standards is limited. However, the ASBJ and UKEB members said the Board should devote more resources to research. The UKEB and ANC members suggested the Board consider undertaking some research projects jointly with national standard-setters to alleviate pressure on the Board's resources.

23. The AcSB, ANC, ASBJ, EFRAG and FASB members said the Board should consider the interconnectedness between the Board and the proposed International Sustainability Standards Board (ISSB) as a separate activity. The ASBJ and FASB members said the Board may need to invest in additional resources to facilitate that interconnectedness. The ASBJ member added that any interconnectedness between the Board and the proposed ISSB should not affect the level of focus on the Board's research and standard-setting activity.

24. The AcSB and EFRAG members suggested the Board set aside capacity to work on emerging issues over the next five years. The AcSB member added that there may be issues that have become more important in this environment.

Criteria for assessing the priority of financial reporting issues

25. The Board proposes to use the following criteria when assessing the priority of projects suggested in its third agenda consultation:

    (a) the importance of the matter to investors;

    (b) whether there is any deficiency in the way entities report the type of transaction or activity in financial reporting;

    (c) the type of entities that the matter is likely to affect, including whether the matter is more prevalent in some jurisdictions than others;

    (d) how pervasive or acute the matter is likely to be for entities;

    (e) the potential project's interaction with other projects on the work plan;

    (f) the complexity and feasibility of the potential project and its solutions; and

(g) the capacity of the Board and its stakeholders to make timely progress on the potential project.

26. ASAF members were asked whether the Board has identified the right criteria and whether it should consider any other criteria.

27. ASAF members said the proposed criteria were broadly appropriate and reasonable. On the practical use of the proposed criteria:

(a) the AOSSG and ARD members suggested that the proposed criterion in paragraph 25(a) should be broadened to consider the needs of all stakeholders rather than just investors.

(b) the EFRAG member said the Board should give more prominence to the proposed criteria in paragraphs 25(a)–(d). However, the AcSB member said the capacity of the Board and its stakeholders should be the most important criterion.

(c) the EFRAG and AcSB members said the Board should be transparent on how it would assess the proposed criteria against the potential projects suggested by stakeholders.

(d) the UKEB member cautioned against the proposed criteria creating any bias towards particular sectors and jurisdictions.

28. Some ASAF members suggested additional criteria for the Board to consider while prioritising projects suggested in its third agenda consultation:

(a) the EFRAG member suggested the Board consider the extent to which non-GAAP measures and structuring opportunities exists in practice.

(b) the UKEB member suggested the Board weigh the long-term relevance of an issue that a potential project might address, adding that the Board should avoid addressing issues that will become irrelevant in a few years.

(c) the ASBJ member suggested the Board evaluate the extent to which a potential project offers the possibility of convergence with US GAAP.

(d) the ANC member suggested the Board consider a project’s relationship with projects of the proposed ISSB.

29. The ANC and EFRAG members suggested the Board consider whether to ask the Trustees to incorporate the proposed criteria in paragraphs 25(e)–(g) into the *Due Process Handbook*.

Financial reporting issues that could be added to the work plan

30. The Request for Information describes and estimates the size of 22 financial reporting issues that could be added to the Board's work plan.

31. ASAF members were asked:

    (a) which financial reporting issues described in the Request for Information they would prioritise and why; and

    (b) whether the Board should add any other financial reporting issues to its work plan for 2022 to 2026.

32. The AcSB, ANC, AOSSG, ARD, EFRAG, KASB and UKEB members prioritised a potential project on intangibles. The AcSB member said such a project should address recognition and measurement of intangibles and disclosures of unrecognised intangibles. The ANC member added that an intangibles project would require interconnectivity with the projects of the proposed ISSB. However, the KASB member mentioned that an intangibles project could be a very difficult undertaking for the Board.

33. The ANC, AOSSG, EFRAG and UKEB members prioritised a potential project on climate-related risks. The EFRAG member suggested the project address climate transition risks and the impairment requirements that apply when considering the long-term effects of climate on the value-in-use measurement. The UKEB member suggested the Board undertake a project to review the requirements in IAS 1 *Presentation of Financial Statements* and IAS 36 *Impairment of Assets* to ensure that when an entity assesses sources of estimation uncertainty the required time horizon it uses is sufficient to take climate risk into account.

34. The AcSB and AOSSG members prioritised a project on going concern. The AcSB member said the project should address how to carry out a going-concern assessment and the accounting requirements that apply when an entity concludes it is no longer a going concern. The AcSB member added that the need for this going concern assessment has increased as a result of the covid-19 pandemic. The AOSSG member

said the project should develop examples to illustrate how current going-concern requirements should be applied.

35. ASAF members also mentioned other potential projects:

    (a) the AcSB, AOSSG, EFRAG and KASB members prioritised a potential project on cryptocurrencies and related transactions.

    (b) the AOSSG, EFRAG and GLASS members prioritised a potential project on variable and contingent consideration.

    (c) the AOSSG and ARD members prioritised a potential project on other comprehensive income. The ARD member added that the Board should introduce new and consistent principles on recycling.

    (d) the AOSSG and EFRAG members prioritised a potential project on the statement of cash flows.

    (e) the AOSSG and UKEB members prioritised a potential project on pollutant pricing mechanisms.

    (f) the EFRAG member prioritised a potential project on discontinued operations.

    (g) the GLASS member prioritised a potential project on separate financial statements and expenses.

    (h) the AOSSG member prioritised a potential project on government grants and borrowing costs.

36. The KASB member suggested the Board consider a further project to explore disclosures for various types of accounting estimates.

37. The FASB member said the FASB had just issued its own agenda consultation document. The FASB has observed an overlap in potential projects for consideration in both boards' consultations—in particular, crypto assets and government grants—and welcomed the opportunity for the boards to share what they learn during each consultation and to maintain their achievements in converged standards.

38. The UKEB member suggested the Board consider taking a thematic approach to developing its work plan for 2022 to 2026. The member added that the approach

would involve grouping projects by theme, helping to ensure that the Board apply consistent principles when addressing themes.

39. Some ASAF members commented on the priority of projects on the Board's current work plan. The UKEB member suggested the Board consider re-prioritising some of the current projects on the work plan. However, the ANC, GLASS and PAFA members said the Board should continue working on projects on its current work plan—the PAFA member, in particular, highlighted the importance of the Extractive Activities and Rate-regulated Activities projects for PAFA stakeholders.

Sustainability-related Reporting

40. The IFRS Foundation staff provided ASAF members an update on developments in the Trustees project on sustainability, including an overview of the proposed targeted amendments to the IFRS Foundation *Constitution* to accommodate the proposed ISSB.

41. The AcSB, AOSSG and UKEB members praised the speed of the sustainability-related project. The UKEB member explained that developing synergies between financial reporting and sustainability-related financial disclosures and between the Board and the proposed ISSB is very important. The AOSSG member reiterated the importance of these synergies and explained synergies between the Board and the proposed ISSB are particularly important if there will be two sets of standards, IFRS accounting standards and IFRS sustainability standards. The AcSB added that the AcSB's Accounting Standards Oversight Council has initiated a standard-setting review that will consider, among other things, interaction with a new sustainability standards board.

42. In response to a query from the KASB member, the staff said the Technical Readiness Working Group (TRWG) is considering the development of synergies, which is one of the Trustees' key requirements for success of the proposed ISSB. The Board is represented on the TRWG, which is working toward proposals on a climate prototype standard, a presentation standard and conceptual guidelines for standard-setting to provide the proposed ISSB with a 'running start' to standard-setting.

43. The ANC member:

(a) sought clarification about the Trustees' decision to propose that only a 'majority' of board members serve full time on the proposed ISSB. The staff explained that the Trustees were looking to ensure some flexibility when establishing the proposed ISSB to ensure that it would be quickly quorate with experienced and diverse membership.

(b) queried the European Union's consideration of the need for jurisdictional 'co-construction' with the proposed ISSB to establish global baseline IFRS sustainability standards and how the co-construction would relate to the proposed 'building-block approach'. The staff explained that involving key jurisdictions in standard-setting is a vital element in the Trustees' proposed operating model for the proposed ISSB. The Trustees understand the importance of involving such jurisdictions in the development of global baseline standards while ensuring that the proposed ISSB remain independent in its standard-setting.

(c) asked the FASB member about standards for climate-related disclosures proposed by the US Securities and Exchange Commission (SEC). The FASB member explained that the Financial Accounting Foundation has acknowledged the importance of the SEC's work and is monitoring its advancement.

44. The KASB member asked whether the IFRS Foundation has obtained funding for the proposed ISSB. The staff explained that ensuring independent funding for the proposed ISSB is one of the key requirements of success as established by the Trustees. Work to satisfy each key requirement is advancing, the staff said, and the Trustees will make their final determination about establishing the proposed ISSB before the 2021 United Nations Climate Change Conference (COP 26).

Rate-regulated activities

45. The objective of this session was for ASAF members to share feedback from their jurisdictions on the Exposure Draft *Regulatory Assets and Regulatory Liabilities*.

46. The AcSB, ANC, AOSSG, EFRAG, KASB, PAFA and UKEB members said their stakeholders generally welcomed the proposals.

Scope

47. The AcSB, ANC, AOSSG, EFRAG, PAFA and UKEB members said that, even though the proposed scope is generally clear, they were concerned entities other than utilities—who may not have closely followed the developments in the project—may be affected by the proposals:

(a) the ANC and UKEB members said the proposed scope may be perceived as being broader than that envisaged in the Discussion Paper *Reporting the Financial Effects of Rate Regulation*. They wondered whether the proposals provided enough clarity about changes to the proposed scope since the Discussion Paper. These members also expressed concerns that the population of entities to which the Exposure Draft applies may be broader than the Board initially intended.

(b) the AcSB and EFRAG members said they have tried to identify examples of entities that may be unintentionally affected by the proposals. However, these members said they have not yet identified any such examples. To minimise situations in which entities are unintentionally included in the scope, the AcSB member suggested it may be helpful if the Standard does not apply to:

(i) regulatory agreements that give rise to financial assets or financial liabilities; and

(ii) entities that apply IFRS 17 *Insurance Contracts* to insurance contracts subject to some form of regulation.

(c) the UKEB member suggested the Standard provide examples that illustrate when regulatory agreements would not be capable of creating regulatory assets or regulatory liabilities.

48. The AOSSG, EFRAG and PAFA members said including in the Standard a definition and description of the attributes of a regulator may help clarify the intended scope. The ANC member said the Exposure Draft was unclear about whether the presence of a regulator is needed for entities to be affected by the proposals. The member added that some stakeholders in his jurisdiction considered that clarity about the necessity of a regulator was relevant.

49. Some ASAF members commented on the need for more specific guidance or illustrative examples:

(a) the EFRAG member said specific guidance or examples on what constitutes a regulatory agreement would be beneficial.

(b) the ANC and KASB members said the Board should consider including further guidance or illustrative examples for assessing the enforceability of the rights and obligations in a regulatory agreement.

(c) the PAFA member said some circumstances such as the existence of public consultation processes before the final rates are set may affect the existence or measurement of regulatory assets or regulatory liabilities. The member suggested guidance on how such circumstances affect existence and measurement would be useful.

50. The ARD member said some stakeholders in her jurisdiction had expressed concerns the proposals may not be applicable because of the lack of regulatory agreements that have clear terms and are enforceable.

51. The ANC member said the initial feedback from entities in the financial services sector in his jurisdiction was that the Exposure Draft may not be applicable to them. However, to be absolutely clear, the ANC member said the Standard should clarify that regulatory assets and regulatory liabilities represent adjustments to revenue from contracts with customers within the scope of IFRS 15 *Revenue from Contracts with Customers*.

Total allowed compensation

52. The AcSB, ANC, AOSSG, EFRAG and OIC members said the majority of their stakeholders were against the proposals to reflect the returns on an asset not yet available for use in profit or loss during the operating phase because the proposals:

(a) would not result in a faithful representation of the profit pattern particularly for entities that have material and long-duration construction work in progress.

(b) are based on the principle that there are no goods or services being supplied with the asset under construction, which in their view is not a compelling principle. According to these stakeholders, the entity is fulfilling an obligation specified in the regulatory agreement—that is to construct and manage a portfolio of assets that enable the entity to supply goods or services to its customers.

(c) would result in a regulatory liability when the returns on construction work in progress are included in the rates charged during the construction period, when in their view an entity has no obligation to reduce rates in future periods.

(d) according to users of financial statements:

  (i) would undermine the relevance of the financial statements because during the construction period the financial statements would not reflect the economics of regulatory agreements that entitle entities to regulatory returns on the construction work in progress; and

  (ii) would not provide them with information to assess the supportiveness of the regulatory environment and the credit quality of the entities undertaking construction work. In addition, the information about returns on construction work in progress provides users with information to help them better assess future cash flows.

(e) would lead to operational complexity and costs for preparers because they would have to make systems changes to track regulatory returns for each asset being constructed.

(f) are not aligned with the proposed treatment of performance incentives related to construction.

(g) would affect comparability with US GAAP.

53. The FASB member said the stakeholders in his jurisdiction welcomed the fact that the proposals would make the accounting for rate-regulated entities more closely aligned with US GAAP, increasing global comparability. However, some stakeholders, particularly preparers, questioned whether the proposals for returns on an asset not yet available for use would pass the cost-benefit test. These stakeholders are concerned that the operational complexity of the proposals may result in the costs of the proposals being higher than the benefits to users of financial statements.

54. The EFRAG member said that there has been some support for the proposals on returns on an asset not yet available for use. One user said that including returns in profit or loss during the construction period would result in front-loading profitability. A regulator commented that the proposals could incentivise the timely completion of projects.

55. The ANC member said some stakeholders in his jurisdiction would like further guidance for when the timing of recognition of expenses in accordance with IFRS Standards is different from when those expenses become allowable under the regulatory agreement.

Measurement

56. The AcSB, ANC, EFRAG and GLASS members generally agreed with the measurement proposals, however, they also shared some concerns and suggestions.

57. The ANC, ARD and EFRAG members said the proposals would create some practical challenges and would be costly to implement when there is measurement uncertainty. The ARD member also said that stakeholders in her jurisdiction are concerned about the opportunities for earnings management that the proposals relating to estimating uncertain future cash flows may introduce. As a result, some investors in her jurisdiction think the usefulness of the resulting financial information would be limited.

58. On the proposals for discounting the estimated future cash flows:

(a) the ANC and EFRAG members said the objective of discounting has not been clearly explained in the Exposure Draft. A clear explanation of the objective of discounting could help stakeholders better understand the proposals relating to the use of the minimum interest rate, according to the ANC member.

(b) the ASBJ member was not convinced by the proposals to use the regulatory interest rate as the discount rate. He said the proposals should instead be aligned with the requirements in other IFRS Standards, such as IAS 36 or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The EFRAG member said some EFRAG stakeholders also shared this view.

(c) the ARD member said it would be difficult to apply the proposal to use the regulatory interest rate as the discount rate because some regulatory agreements in her jurisdiction do not include regulatory interest rates.

(d) the ASBJ and KASB members said the Board should consider not requiring discounting if a regulatory asset is recovered or a regulatory liability is fulfilled within a year.

59. On the proposals to use the minimum interest rate as the discount rate when the regulatory interest rate for a regulatory asset does not sufficiently compensate an entity for time value of money and uncertainty in the future cash flows:

(a) the ANC member said stakeholders in his jurisdiction showed little support for these proposals because they find the rationale for these proposals unclear. Some stakeholders read the Exposure Draft as requiring entities to assess the sufficiency of regulatory interest rates in all situations. Because of this reading, the ANC and the EFRAG members said, the Board could consider introducing a rebuttable presumption by which entities would be required to use the regulatory interest rate as the discount rate unless the minimum interest rate was higher than this rate. The ANC member also questioned the asymmetry of these proposals—the proposals would only apply to regulatory assets and not to regulatory liabilities. The member suggested the basis for conclusions on the Standard should better explain the reasons for the asymmetry.

(b) the EFRAG and GLASS members said some of their stakeholders would support using the regulatory interest rate for discounting all regulatory assets and regulatory liabilities. Some stakeholders support using the regulatory interest rate, the EFRAG member said, because there is an element of objectivity associated with it and because some stakeholders are concerned about whether using the minimum interest rate as the discount rate would be operational.

(c) the AcSB and ANC members said some stakeholders are of the view that further guidance on determining the minimum interest rate would help preparers apply the final requirements.

Interaction with IFRIC 12 *Service Concession Arrangements*

60. The PAFA and KASB members said they are researching how the proposals would be applied together with IFRIC 12.

61. The ANC member said he is not aware of any conflict between the proposals and IFRIC 12 in his jurisdiction. He also said that, during the operating service phase, regulatory assets and regulatory liabilities may exist in both the financial asset and intangible asset models in IFRIC 12.

62. The EFRAG member said EFRAG is currently seeking examples to analyse further the interaction between the proposals and IFRIC 12.

Other topics

63. The OIC member said some stakeholders in his jurisdiction suggested that a ‘highly probable’ threshold should be used for the recognition of regulatory assets as a matter of prudence.

64. The ASBJ member said presenting all regulatory income minus all regulatory expense immediately below revenue may not provide useful information to users of financial statements. For example, some stakeholders in his jurisdiction think that presenting costs of a natural disaster that a regulator may allow an entity to recover through the rates net of the associated regulatory income would better depict an entity’s financial performance. According to the member, this presentation would be aligned with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, which permits grants related to income to be presented as income or as a deduction of the related expenses.

65. The OIC member said that stakeholders in his jurisdiction did not agree with the proposed exception in IFRS 3 *Business Combinations* to measure regulatory assets acquired, and regulatory liabilities assumed, in a business combination using the measurement proposals in the Exposure Draft instead of measuring them at fair value. They questioned the arguments provided in the Exposure Draft relating to the complexity in determining the fair value measurements. The EFRAG member said EFRAG does not have a final position on these proposals and is seeking stakeholders’ views to help EFRAG develop its comment letter.

66. The EFRAG and AOSSG members said some of their stakeholders:

(a) are requesting further clarity on how the accounting model for rate-regulated activities would be applied when the measurement basis applied by the regulatory agreements and the measurement basis used in IFRS Standards are different; and

(b) queried whether the Board should introduce a threshold similar to that for variable consideration accounted for in accordance with IFRS 15 when recognising regulatory income arising from performance incentives.

Goodwill and Impairment

67. The objective of this session was to seek ASAF members' view on:

(a) whether the staff have identified all the key items to consider for the redeliberation of the Board's preliminary views in the project; and

(b) issues relating to convergence between the Board's preliminary views and US GAAP.

Key items to consider for redeliberation

68. The AcSB, ARD, EFRAG and UKEB members said the staff have identified the relevant issues to consider.

69. The AcSB, AOSSG and KASB members commented on the scope of the project and how the Board should prioritise its redeliberations on various topics:

(a) the AcSB member suggested the Board address issues relating to subsequent accounting of goodwill and improving disclosures for business combinations in separate projects. In the member's view, separating the projects would allow the Board to more quickly finalise aspects of the projects with which stakeholders generally agree, such as the Board's preliminary views on changes to methods of estimating value in use and some of the targeted improvements to disclosures. Quickly finalising some proposals would then provide more time for the Board to redeliberate the improvements to disclosures about the subsequent performance of business combinations, work on which could include performing additional fieldwork. The Board could then redeliberate the subsequent accounting for goodwill, including considering convergence with US GAAP and providing additional guidance on indicators of impairment.

(b) the KASB member said he was unsure whether better disclosures could improve the robustness of the impairment test. In the member's view, ideas on disclosures should be explored only after issues with subsequent accounting of goodwill has been resolved.

(c) the AOSSG member said:

(i) decisions on the subsequent accounting of goodwill should be prioritised over disclosures, some AOSSG stakeholders have said, because the Board's decisions on the subsequent accounting of goodwill could affect the disclosures that would be required; and

(ii) improvements to the impairment test should be prioritised, according to stakeholders in one AOSSG jurisdiction, because entities would need to perform impairment tests on goodwill regardless of whether amortisation of goodwill is reintroduced.

70. Some ASAF members made other suggestions to the Board:

(a) the ANC and UKEB members suggested the Board investigate the effectiveness of the impairment test using the current pandemic as a stress test mechanism.

(b) the ARD member suggested the Board consider preparers' concerns over costs and benefits, as well as regulators' needs, since they find the goodwill impairment test difficult to enforce.

(c) the AOSSG member suggested the Board set up a working group on disclosures involving users and preparers to enable direct communication between those two groups of stakeholders.

Convergence with US GAAP

Importance of convergence

71. ASAF members expressed various opinions on the importance of convergence with US GAAP.

72. The AcSB, AOSSG, ASBJ, KASB and OIC members said convergence is a key factor for the Board to consider. Specifically:

(a) the AcSB member said convergence between IFRS Standards and US GAAP is important in her jurisdiction because of its close economic relationship with the US. The member also did not consider the difference in the project objectives for the two boards to be sufficient to justify potential difference in the outcomes of their separate projects.

(b) the ASBJ member said divergence in the main requirements in IFRS Standards and US GAAP is not sustainable and calls for convergence would resurface in the future if the standards diverged.

(c) the OIC member said having a single model for the subsequent accounting of goodwill in IFRS Standards and US GAAP is more important than adopting the model the member would have preferred.

(d) the AOSSG member said the Board should provide an effect analysis if the two standards diverge.

73. The EFRAG and UKEB members said although convergence is an important factor for the Board to consider, it should not be the determining factor in the Board's decision making. The ARD member did not consider convergence to be an important factor in the Board's decision making. In these members' view, the Board should work on the model that would faithfully represent the financial performance of entities and provide users with most relevant information. The UKEB member said the Board's international perspective might mean the Board reaches a different conclusion to the FASB.

74. The ANC member said collaboration between the two boards on convergence would be beneficial if the focus of both boards is to improve the decision usefulness of information provided applying the current model for accounting for goodwill.

75. The FASB member said the FASB is leaning towards reintroducing amortisation for goodwill. The member further commented that there is substantial benefit in achieving convergence on the topic and from discussions with the Board. The FASB member said the FASB would like to persuade the Board to reintroduce amortisation for goodwill.

Scope of convergence

76. The AcSB and EFRAG members said that convergence should cover both the subsequent accounting of goodwill and disclosures for business combinations. The AcSB member further commented that the Board should also consider the initial accounting of intangible assets when discussing convergence.

77. The AOSSG, ARD and KASB members said convergence with US GAAP is only about whether to reintroduce amortisation of goodwill.

78. The AOSSG, AcSB, ARD, OIC and UKEB members said the detailed requirements of the model used to account for goodwill need not be exactly the same. However, the AcSB said the model used to account for goodwill should be robust and that it would be highly desirable for the two outcomes to be comparable. Reporting comments from one AOSSG jurisdiction, the AOSSG member said the Board should consider convergence of the detailed requirements of the impairment test.

79. The AcSB member also said that detailed disclosure requirements do not need to be identical but it would be helpful if there was a set of common core disclosure requirements.

80. The ASBJ member commented that although it may not be feasible to have identical standards, both boards should seek to achieve as much convergence in the accounting requirements as possible.

Cost of divergence

81. The AcSB and ASBJ members commented on the cost of possible divergence of accounting requirements for preparers and users. In their view, such a divergence could:

    (a) increase the cost for some preparers because they might be required to prepare two sets of accounts, to engage additional external valuation specialists or to reconcile the results under the two standards.

    (b) increase the cost for users to consume information because users would need to adjust the performance reported by entities. In addition, some users might not be familiar with the detailed accounting requirements, making it harder for them to compare performance of entities.

82. The AcSB member said that the additional costs for users could increase the cost of capital for entities.

Other comments

83. The FASB member said the FASB did not focus on improving disclosures for business combinations in its project for goodwill because such disclosures are generally included in management commentary in the US. The member also observed that the name of the Board's project 'Goodwill and Impairment' does not cover all the topics considered since the scope of the disclosures are broader than just goodwill and impairment. He said the project name might present a branding issue.

84. The KASB member suggested the Board consider recognising goodwill amortisation expense through other comprehensive income if the Board decided to reintroduce amortisation for goodwill. In the member's view, although such an approach may not be aligned with the *Conceptual Framework for Financial Reporting* because the expense does not arise from a change in the current value of goodwill, it would provide a more faithful representation of the entity's performance.

Disclosure Initiative—Targeted Standards-level Review of Disclosures

85. The objective of this session was to discuss the Board's outreach relating to the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach* published in March 2021, including fieldwork to test the Board's proposals.

86. ASAF members shared their comments on the outreach and asked questions about it.

87. The AcSB, ANC, EFRAG, KASB and UKEB members said the proposals in the Exposure Draft could significantly change the way stakeholders approach disclosures in their financial statements, adding that this important project is a potential game-changer. These members said the proposals introduce potentially radical changes that would be behavioural as well as technical. Therefore, stakeholders need sufficient time to assess the proposals. The ARD and KASB members suggested that outreach should focus on whether the proposals are operational and enforceable.

88. ASAF members said extensive fieldwork with preparers was important and so was sufficient time to discuss the outcomes of that fieldwork with other stakeholders such as auditors, regulators and users of financial statements. The AcSB, ANC and UKEB

members said the proposals could positively affect the quality of disclosures but stakeholders had a lot of concerns. These members added that support for the proposals would depend on how they would work in practice, and the results of fieldwork would be critical to understanding the practical implications of the proposals. The AcSB, AOSSG, ARD and EFRAG members said fieldwork participants should include preparers of various sizes and from various industries. The ARD member suggested that participants be asked to provide disclosures under both the existing and proposed requirements.

89. The AcSB, ANC, EFRAG and UKEB members requested an extension to the comment period deadline; the EFRAG member requested an extension of at least three months. These members said the comment deadline of 21 October 2021 would be insufficient to obtain comments from a variety of stakeholders or to gather adequate evidence from fieldwork and discuss that evidence with other stakeholders. The EFRAG member said many European preparers would only be ready to participate in fieldwork towards the end of September 2021. The ANC member said preparers are busy with interim reporting and are responding to many consultation documents. The KASB member said preparers are waiting until they have finished reviewing the Exposure Draft to decide about participating in the fieldwork.

90. The ARD member noted that the proposals are designed to provide more useful information to users of financial statements and suggested the Board target users in its outreach. The AcSB member said users are concerned with the quality of disclosures they would get under the proposals. The AOSSG member relayed stakeholders concerns that, despite the Exposure Draft's focus on user needs, it does not clarify who those users are.

91. The AcSB and KASB members said the Board should also engage with auditors and regulators. The AcSB member said auditors might have difficulty assessing whether an entity is required to disclose particular information, and regulators are concerned about their ability to enforce disclosure requirements developed applying the proposed approach.

Agenda Planning

92. The objective of this session was to discuss the topics for the next ASAF meeting, which is planned to take place in October 2021.

93. The AOSSG member said the AOSSG is likely to provide only preliminary feedback on the consultation document for Management Commentary, as outreach activities for the Exposure Draft will still be ongoing in October. The member suggested to discuss changes to the Board's preliminary views in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* in the light of the feedback.

94. In response to a query from the AcSB member, the Executive Technical Director said the staff should be able to provide ASAF members with a verbal update on the feedback on the Exposure Draft *Regulatory Assets and Regulatory Liabilities*, for which the comment period ends on 30 July 2021.

95. The EFRAG member said EFRAG would like to present its research paper on intangible assets, either at the October or December ASAF meeting.

96. The UKEB member asked if the incoming Chair of the Board could provide his views on the priorities for the Board, in the light of the feedback on the Third Agenda Consultation.