Meeting Notes—Joint CMAC GPF Meeting

The Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) held a virtual meeting on 10-11 June 2021, broadcast by the International Accounting Standards Board (Board).

Members discussed the following projects:

- Third Agenda Consultation (paragraphs [1–23])
- Disclosure Initiative-Targeted Standards-level Review of Disclosures (paragraphs [24–41])
- Management Commentary (paragraphs [42–59])
- IASB Technical Update (paragraph [60])
- Update on the IFRS Foundation Trustees' project on sustainability reporting (paragraphs [61–63])

Third Agenda Consultation

1. In March 2021, the Board published the Request for Information *Third Agenda Consultation*. The Board is asking for stakeholder comments by 27 September 2021. Stakeholder responses will help shape the Board's thinking when determining how to prioritise its activities and what new projects to add to its work plan for 2022 to 2026.

2. The staff summarised the Request for Information. This presentation was followed by breakout sessions to obtain members' views on:

   (a) the strategic direction and balance of the Board's activities;

   (b) the criteria for assessing the priority of financial reporting issues that could be added to the Board's work plan; and

   (c) financial reporting issues that could be given priority in the Board's work plan.

(a) The strategic direction and balance of the Board's activities

3. The Board's main activities include:

   (a) developing new 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.

4. In the breakout sessions, CMAC and GPF 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 its work.

5. Some CMAC members and a few GPF members said the Board should focus less on research and standard-setting projects. These members said the IFRS Standards work well, are reasonably complete and do not need any major improvements. They also said that the Board should not underestimate the implementation cost of any new Standard. Some CMAC members said users need long-term trends (covering 10–15 years) to make decisions, and changes to the Standards disrupt those trends. However, other CMAC members said if users understand changes arising from the implementation of a new Standard, they can adjust the historical information appropriately. These members said the Board should make changes to the Standards if these changes improve financial reporting and the usefulness of information. Some members suggested the Board focus less on post-implementation reviews.

6. Some CMAC and GPF members suggested the Board should focus more on maintenance and consistent application. Some of these members said the Board could provide more educational materials for investors. Some members said academic research might help the Board assess the value relevance of changes to the Standards and understand the impact of those changes on users. Some members also commented on the role that auditors and regulators play in supporting consistent application of the Standards.

7. Some CMAC and GPF members said the Board should spend more time on digital financial reporting, mainly to improve the accessibility of financial information.

8. Some CMAC and GPF members said the Board should spend more time making the Standards understandable because doing so enables users of the Standards (including preparers) to provide better information and communicate effectively with users of financial statements.

9. Some members said that the Board needs to set aside contingent capacity to respond to emerging issues.

(b) The criteria for assessing the priority of financial reporting issues that could be added to the Board's work plan

10. The Board considers seven criteria in deciding whether to add a potential project to its work plan, namely:

(a) The importance of the matter to investors.

(b) Whether there is any deficiency in the way companies report the type of transaction or activity in financial reports.

(c) The type of companies 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 companies.

(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.

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

11. In the breakout sessions, CMAC and GPF members were asked whether the Board has identified the right criteria and whether it should consider any other criteria.

12. CMAC and GPF members generally agreed with the Board's proposed criteria. Some members said:

    (a) the Board should rank the criteria according to their importance. Some CMAC members said the most important criteria are the importance of the matter to investors, deficiency in financial reporting and types of companies affected. One member said the most important criteria are importance of the matter to investors, complexity and feasibility, and capacity. However, other members said the complexity and feasibility of the potential project and its solutions, along with capacity, could create a bias against long-term projects. These members suggested that these criteria should not stop the Board from adding a long-term project to the work plan.

    (b) the Board should focus on major deficiencies in current reporting and should not spend too much time on narrow-scope amendments that require time and effort, but do not significantly improve financial reporting.

    (c) the Board may be using too many criteria, which may lead the Board to be using too much judgement and not necessarily help clarity of thinking.

    (d) the Board needs to ensure that the benefits of any standard-setting justify the cost. Some members gave IFRS 15 *Revenue form Contracts with Customers* as an example of a Standard that was costly to implement, and questioned whether these costs justify the benefits of reporting the information to investors.

    (e) in assessing how pervasive the matter is, the Board should use quantitative studies and review academic literature. One member suggested the Board consider focusing on global matters rather than jurisdictional issues—for example, global tax reform.

(c) Financial reporting issues that could be given priority in the Board's work plan.

13. The Request for Information summarises financial reporting issues that could be added to the Board's work plan.

14. In the breakout discussions, CMAC and GPF members were asked:

    (a) what priority they would give each of the potential projects described in the Request for Information and why; and

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

15. Many CMAC and GPF members said a project on the statement of cash flows and related matters is a high priority for them. These members raised concerns about the statement of cash flows and suggested solutions, including:

    (a) a comprehensive review of the Standard;

    (b) a standardised definition of some commonly used cash flow measures, such as free cash flows;

    (c) better disclosure requirements about maintenance and growth spend;

    (d) enhanced disclosure requirements to help investors reconcile the statement of cash flows with other primary financial statements; and

    (e) an improved statement of cash flows, including better information about working capital, non-cash movements, restricted cash and income taxes.

16. Many CMAC and GPF members said a project on intangibles is a high priority. These members said the Board:

    (a) needs to comprehensively review the Standard, including recognition and measurement of internally generated intangible assets;

    (b) could develop enhanced disclosure requirements about research and development; and

    (c) should be cautious in undertaking a potential project on intangibles because of the complexity and feasibility of such a project.

17. Some CMAC and GPF members said a project on operating segments is a high priority and suggested the Board:

    (a) enhance disclosure requirements to allow analysis of return on capital by segment; and

    (b) improve the criteria for aggregating operating segments into reportable segments.

18. Some members expressed concerns about IAS 12 *Income Taxes*. These members said the balance-sheet approach to deferred taxes used in IAS 12 might not provide useful information.

19. Some members said cryptocurrencies and discontinued operations and disposal groups are high priority projects.

20. Some CMAC and GPF members emphasised the importance of the Board's current project on Primary Financial Statements.

21. A few members commented on a potential project on climate-related risks, including accounting for pollutant pricing mechanisms. One member suggested the Board delay taking on any such project until an International Sustainability Standards Board is established.

22. A few members mentioned they need more timely and better interim information, so some improvements to IAS 34 *Interim Financial Reporting* may be needed. One GPF member said the Board should be cautious in requiring disclosure of too much information in interim financial statements.

Next steps

23. The Board will consider comments from members when it discusses the feedback on its Request for Information.

Disclosure Initiative-Targeted Standards-level Review of Disclosures

24. The purpose of this session was for CMAC and GPF members to discuss and provide feedback on the Board's proposed new approach to developing disclosure requirements in IFRS Standards, using the proposed amendments to IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits* as test cases.

25. The staff provided CMAC and GPF members with an overview of proposals included in the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach*. This overview was followed by breakout sessions to obtain members' views on:

    a. proposed specific disclosure objectives for IFRS 13:

        i. assets and liabilities within each level of the fair value hierarchy.

        ii. measurement uncertainties associated with fair value measurements.

        iii. reasonably possible alternative fair value measurements.

        iv. reasons for changes in fair value measurements.

    b. proposed specific disclosure objectives for IAS 19:

        i. amounts in the primary financial statements relating to defined benefit plans.

        ii. nature of, and risks associated with, defined benefit plans.

        iii. reasons for changes in the amounts recognised in the statement of financial position for defined benefit plans.

        iv. measurement uncertainties associated with the defined benefit obligation.

        v. expected future cash flows relating to defined benefit plans.

vi. future payments to members of defined benefit plans that are closed to new members.

(a) Proposed specific disclosure objectives for IFRS 13

26. GPF members said that the specific disclosure objective on assets and liabilities within each level of the fair value hierarchy was clear, though one GPF member observed that the proposed requirements would be more relevant to financial institutions than other industries.

27. Some CMAC members said that adequate disaggregation—for example by class of asset, geography or industry—is important. They said such disaggregation is more important than the split of items into each level of the fair value hierarchy. However, they questioned whether the proposed requirements would lead to sufficient disaggregation.

28. CMAC and GPF members had mixed views on the usefulness of the specific disclosure objective on measurement uncertainties associated with fair value measurements. In their view, users would remain sceptical about the valuation of items in Level 3 of the fair value hierarchy, regardless of what information is disclosed. Members reported that this is particularly true during financial crises and that, at these times, it would be important for users and company management to talk.

29. On the specific disclosure objective about reasonably possible alternative fair value measurements, CMAC members expressed various opinions about the usefulness of sensitivity analysis. Some said such analyses can be difficult to understand or that sensitivities based on a single variable do not provide useful information. One CMAC member suggested that sensitivity analyses can nevertheless be helpful in starting conversations with company management. The members also had mixed views on whether the forms of such analyses, if required, should be prescribed. A prescriptive sensitivity analysis might help achieve comparability of disclosure between entities, some CMAC members said; however, such an analysis would be unlikely to reflect realistic scenarios. Some CMAC members would prefer to know how a company’s management models sensitivity for itself. One GPF member suggested requiring the disclosure of stress scenarios, which regulators typically ask banks to perform.

30. Both CMAC and GPF members agreed with the specific disclosure objective on significant reasons for changes in fair value measurements. One CMAC member said that information on transfers between levels of the fair value hierarchy is particularly important, and another CMAC member agreed with the proposals that a numerical reconciliation of movements in Level 3 fair value measurements would always be needed to meet the objective.

(b) Proposed specific disclosure objectives for IAS 19

31. Both CMAC and GPF members generally agreed with the specific disclosure objective on amounts reported in the primary financial statements, saying that it would lead to the provision of useful information. One CMAC member commented that it would be useful if entities were required to link information to individual lines in the primary financial statements; however, a GPF member commented that making such links could be challenging due to cost allocation systems. One CMAC member said that disclosure of the amounts included in the

statement of cash flows relating to defined benefit plans would be useful information—highlighting this as a useful aspect of the example disclosure provided for the meeting.

32. Some CMAC and GPF members said that information on the deferred tax asset or liability arising from the defined benefit plans is particularly useful. One CMAC member said the information is useful because users normally consider an entity’s pension deficit net of tax. However, a GPF member questioned the usefulness of such information for multinational entities that are exposed to multiple tax rates.

33. Members also discussed the specific disclosure objective on the nature of, and risks associated with, defined benefit plans. One GPF member welcomed the opportunity for entities to use judgement in determining what to disclose. However, the member said that discussions with auditors or concerns about possible adverse consequences of omitting items of information from the financial statements might, nevertheless, result in entities disclosing information that they consider to be immaterial. CMAC members agreed that the specific disclosure objective adequately captured their information needs.

34. Both CMAC and GPF members generally agreed with the specific disclosure objective on reasons for changes in amounts reported in the statement of financial position. Some CMAC members said they would like to see separate reconciliations for plan assets and the defined benefit obligation, adding that it was important that the reconciliations are linked to amounts reported in the statement of financial position. However, GPF members noted that this level of detail may be difficult to do in some circumstances.

35. On the specific disclosure objective about measurement uncertainties associated with the defined benefit obligation, some CMAC members said that sensitivity analysis is important to users. CMAC and GPF members had mixed views about whether sensitivity analysis should be a mandatory item of information for disclosure.

36. Both CMAC and GPF members generally agreed with the specific disclosure objective on expected future cash flows relating to defined benefit plans. One GPF member said the proposals would enable them to provide information that is useful to users in an effective manner. Some members said that expected future cash flows are more a function of the funding valuation than of the accounting valuation. These members suggested including disclosure about the funding valuation, how that valuation links to the expected future cash flows and the discount rate used in the funding valuation as additional items of information that may enable an entity to meet the specific disclosure objective. One CMAC member also suggested requiring information on any deferred tax consequences of any expected future cash flows.

37. Both CMAC and GPF members generally agreed that a specific disclosure objective on future payments to members of defined benefit plans that are closed to new members would be useful. However, some GPF members suggested the Board incorporate it with other objectives instead of setting out a separate one.

Other comments

38. Both CMAC and GPF members in one breakout group generally agreed with the use of mandatory specific disclosure objectives, saying that these objectives would help entities to deliver useful information more concisely. The members also discussed the split between mandatory and non-mandatory items of information. Some suggested that quantitative items of information should be required, while entities should be given more freedom to judge which qualitative information to disclose. Members thought this approach might help with comparability between entities. Another member suggested that the Board should provide guidance on the circumstances in which non-mandatory items of information may need to be disclosed.

39. One CMAC member suggested that, if the Board is confident in the proposed specific disclosure objectives, it should consider excluding non-mandatory items of information from the proposals. The member thought this deletion would further encourage the use of judgement and help entities to avoid applying the proposals like a checklist.

40. One GPF member observed that it would take time for stakeholders to understand how the term 'non-mandatory' should be applied and that entities would need to work with auditors in implementing the proposed approach. One CMAC member suggested using the term 'suggested' rather than 'non-mandatory' because, in their view, a list of non-mandatory items could still be viewed as a checklist. Another CMAC member said those lists would be helpful, while agreeing that the lists should be open, rather than exhaustive.

Next steps

41. The staff will report input from CMAC and GPF members to the Board at a future meeting and will consider that input in analysing feedback on the exposure draft.

Management Commentary

42. The Board published the Exposure Draft *Management Commentary* in May 2021 with a comment period until 23 November 2021. The purpose of the session was to discuss and provide feedback on the Board's proposed objectives-based approach for management commentary centred on the information needs of investors and creditors.

43. The staff summarised the proposed approach, including disclosure objectives for all areas of content. This presentation was followed by breakout sessions in which:

    (a) CMAC members were asked whether the Board has correctly identified investors and creditors' information needs in the proposed disclosure objectives for areas of content in management commentary; and

    (b) GPF members were asked whether the proposed disclosure objectives for the areas of content, and their supporting requirements and guidance, provide preparers with a suitable and sufficient basis to identify and provide information in management commentary.

44. CMAC and GPF members were divided in four breakout groups. Each group discussed both questions.

Disclosure objectives: reflecting investors and creditors' information needs

45. CMAC and GPF members welcomed the Board's proposed objectives-based approach, saying it could lead to more informative and company-specific management commentaries than specified lists of required disclosures would. Some CMAC members said that the proposals could help bring together in one report information that investors currently collect from several sources.

46. CMAC members said that the proposed disclosure objectives reflect investors' information needs and provide a suitable structure for preparing a useful management commentary. Some CMAC members viewed as appropriate that the proposed disclosure objectives:

    (a) focus on value creation as an anchor for providing information. However, a few members asked for a more precise description of 'value creation'.

    (b) form a coherent set connected to each other and to the financial statements.

    (c) are linked to the overriding requirement to provide material information.

    (d) create a basis for dynamic reporting that captures not only what has already been achieved but also how it has been achieved, what it depends on and whether those results are sustainable.

    (e) cover all time horizons, including the long term.

    (f) provide flexibility for preparers to tell their story and pull together information from various sources.

47. Some CMAC members suggested that the disclosure objectives should give more prominence to one or more types of information that are important to investors, namely:

    (a) information about a company's competitive advantage;

    (b) information about management's progress in managing key matters;

    (c) metrics and information about how those metrics were calculated; and

    (d) information about how key relationships are managed.

48. Members expressed concerns that:

    (a) disclosure objectives and examples in the Exposure Draft, in particular those related to strategy and resources and relationships, are more suited to traditional 'brick and mortar' companies than to other companies. In these members' view, the Practice Statement should include more examples applicable to new technology companies.

(b) specific disclosure objectives for strategy require information related to milestones, although not all companies set milestones or assess progress against them.

49. Some CMAC members expressed frustration about the current practice of providing in management commentaries long boilerplate disclosures about risks. A GPF member explained that some preparers choose to include every possible risk out of abundance of caution to avoid criticism that some risks were not considered. The members suggested that requiring disclosures related to risk management as well as linking risks to key matters in other areas of content might encourage focused disclosure of key risks that management monitors and manages.

50. Some CMAC members expressed concern that the disclosure objectives may be difficult to enforce. Some CMAC members questioned whether the disclosure objectives would lead to sufficiently detailed information.

Disclosure objectives and supporting requirements and guidance: a basis for identifying and providing information

51. Generally, GPF members viewed the proposed disclosure objectives and examples of material information as a good basis for preparing management commentary with enough flexibility for companies to tell their story. Some GPF members need more time to assess the proposals and see whether they would enable these members to provide information that investors need.

52. GPF members expressed concerns about disclosure of commercially sensitive information. Some members said that a company could prepare management commentary useful to investors without a detrimental effect on the company's competitive position if the information required is not too detailed. Members suggested that the revised Practice Statement should provide guidance on disclosing commercially sensitive information.

53. Some GPF members compared the Board's proposals in the Management Commentary Exposure Draft with its proposals for disclosure objectives in the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach*. In these members' opinion, the proposals in the Pilot Approach Exposure Draft would provide more information about how information required by specific disclosure objectives would be used and so could be more helpful to preparers.

54. Some GPF members commented that information provided in management commentary would depend on the local regulatory and assurance environment. If the regulation is too strong or unclear, preparers are likely to stay conservative and keep providing generic or boilerplate information in management commentary.

Other comments

55. Some GPF and CMAC members questioned whether the proposed requirements would provide a suitable basis for assurance on management commentary, and recommended outreach with auditors to get their feedback.

56. Some members suggested that the Board should clarify further the scope of management commentary. In these members' view, the Board should make clear that management commentary brings in information from other sources, including information needed to assess the company's long-term prospects.

57. Some members commented that management commentaries tend to present an optimistic view of the company. Some said that the Board's proposals could help preparers improve balance in management commentary while still allowing them to tell their story.

58. Some members questioned whether and to what extent management commentary should capture information about a company's governance, compliance and social performance monitoring. The staff explained that under the Board's proposals this information would be captured if it relates to the company's value creation process. Other information is expected to be provided in the company's other corporate reports.

Next steps

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

IASB Technical Update

60. The groups received a summary of the Board's current workplan and an update on recent agenda decisions of the IFRS Interpretations Committee.

Update on the IFRS Foundation Trustees' project on sustainability reporting

61. The Executive Director of the IFRS Foundation Lee White provided CMAC and GPF members with an update on the IFRS Foundation Trustees project on sustainability reporting. Mr White fielded questions from CMAC and GPF members about the proposed amendments to the IFRS Foundation Constitution.

Next steps

62. The IFRS Foundation Trustees will analyse comments and feedback relating to the amendments to the IFRS Foundation Constitution after the comment period has closed on 29 July 2021.

63. Updates on the Trustees work on sustainability reporting will continue to be provided to CMAC and GPF members at appropriate junctures.

Next meetings

The next CMAC meeting will be held on 11 November 2021. The next GPF meeting will be held on 12 November 2021.