Meeting Notes—GPF Meeting

The Global Preparers Forum (GPF) held a virtual meeting on 12 November 2021, broadcast by the International Accounting Standards Board (IASB).

Members discussed the following projects:

- Goodwill and Impairment (paragraphs [1-19])
- Equity Method (paragraphs [20–25])
- Subsidiaries without Public Accountability (paragraphs [26-29])
- IASB update (paragraphs [30–36])
    a. Primary Financial Statements—Project Status and Next Steps
    b. Other IASB update
- IFRS Interpretations Committee update (paragraph [37])

Goodwill and Impairment

1. The purpose of this session was to seek GPF members' views on some of the preliminary views expressed by the IASB in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* that the IASB is redeliberating. GPF members were asked about:

    a. disclosures about business combinations (paragraphs 2–8);

    b. the feasibility of estimating the useful life of goodwill (paragraphs 9–14); and

    c. the potential effects of reintroducing amortisation of goodwill (paragraphs 15–18).

Disclosures about business combinations

2. The IASB's preliminary view is that it should require entities to provide information about the subsequent performance of business combinations (subsequent performance information) that the entity's chief operating decision maker (CODM) monitors.

3. However, some respondents to the Discussion Paper said that using an entity's CODM to identify the business combinations for which subsequent performance information should be disclosed could result in users of financial statements (users) not receiving material information. f

4. The staff asked GPF members which business combinations the CODM in their organisation reviews and whether and how this differs from the business combinations about which the entity provides information applying IFRS 3 *Business Combinations*.

5. GPF members had different responses:

    a. one member said the CODM reviews only the most significant business combinations. The CODM identifies significant business combinations by considering quantitative and qualitative factors (for example, the strategic rationale for the business combination). That GPF member said using the

CODM to identify the business combinations for which subsequent performance information should be disclosed is a sensible approach.

b. another member said the business combinations monitored by the CODM in their organisation depended on the purpose of the business combination. The GPF member said the CODM might, for example, look at business combinations if they have relevance to the overall business strategy even if they would be immaterial applying IFRS 3.

c. one member said the CODM monitors the performance of all material business combinations and some that are immaterial.

d. one member said the CODM does not monitor the performance of any business combination. That GPF member said the performance of business combinations is monitored at a divisional level.

6. Many GPF members raised concerns about the information an entity would be able to disclose if the acquired business were integrated into another business. GPF members said the performance of a business combination is often monitored as part of the ongoing business assessment rather than on a stand-alone basis, which could mean that:

    a. it would be difficult to assess whether the change in performance of an integrated business (for example a business segment into which an acquired business has been integrated) results from the business combination or from other factors.

    b. information about an entity's targets for a business combination would provide information about the entity's budgets and business plans, which is internal information and inappropriate to disclose in financial statements. One GPF member said the integrated information the CODM reviews that relates to the business combination is at the segment level. Requiring disclosure of integrated information about the entity's targets for a business combination would require the entity to provide information about its internal budgets for the segment. In this GPF member's view, this information is forward-looking and should not be provided in financial statements.

7. One GPF member said the metrics the CODM reviews for integrated business combinations are different from those businesses monitored on a stand-alone basis. A few GPF members said in an integrated business an entity might track information by line of product or geographical locations rather than information about a stand-alone business.

8. One GPF member said the IASB should ensure any additional disclosure requirements it proposes align with proposals of the US Financial Accounting Standards Board.

Feasibility of estimating the useful life of goodwill

9. In September 2021 the IASB decided to analyse specific aspects of feedback on the subsequent accounting for goodwill, including whether it is feasible to make a reliable estimate of the useful life of goodwill.

10. The staff asked GPF members whether, in their view, it would be feasible to reliably estimate the useful life of goodwill and the pattern in which goodwill diminishes in value on a transaction-by-transaction basis and, if so, what information they would use to make such an estimate.

11. Many GPF members said it would be feasible to reliably estimate the useful life of goodwill. The rationale of some members holding this view was that financial statements already contain many estimates and judgements. One member said it would be possible to make reliable estimates as long as the IASB's requirements in this respect were not too prescriptive.

12. GPF members suggested that an entity could use information about synergies, the payback period and the licence period for unrecognised intangibles to estimate the amortisation period.

13. Most GPF members also suggested specifying a maximum length for the amortisation period. Some members said setting a maximum length would be a practical approach and some members explained that doing so would prevent entities from estimating 'unhealthy' or very long amortisation periods.

14. One GPF member said requiring entities to estimate the useful life of goodwill would result in difficult discussions with auditors. However, another GPF member said estimating the amortisation period only requires a judgement to be made once, whereas the annual impairment test requires judgements to be made every year, and therefore in that member's view amortising goodwill would be easier to apply.

Potential effects of reintroducing amortisation of goodwill

15. The second aspect of feedback on the subsequent accounting for goodwill the IASB decided to investigate was the potential effects of derecognising significant amounts of goodwill on transition to an amortisation-based model if the IASB were to decide to reintroduce amortisation. The staff asked GPF members what those potential effects could be.

16. Many GPF members said that, in their jurisdictions, the effects of transition to an amortisation model on an entity would likely be limited. To explain this point:

    a. some members said dividend distributions are based on individual company financial statements and therefore would not be affected.

    b. some members said any effects on credit rating or loan covenants would be limited because rating agencies and banks generally ignore goodwill, or use 'earnings before interest, tax, depreciation and amortisation' as the basis for loan covenants.

    c. one GPF member said that although loan covenants could be affected, the renegotiation of these covenants would not pose any difficulty.

17. However, some GPF members said transition to an amortisation model could affect an entity's dividend distributions, loan agreements (for example, if they stipulate debt to equity ratios) and credit rating.

18. One GPF member suggested clarifying that, to avoid unintended consequences, entities should not analogise the amortisation of goodwill (if reintroduced) to the accounting for investments in subsidiaries in individual financial statements.

Next steps

19. The IASB will consider the comments from members as it continues to redeliberate its preliminary views.

Equity Method

20. The objective of the IASB's Equity Method project is to assess whether it is possible to resolve the application questions relating to the equity method set out in IAS 28 *Investments in Associates and Joint Ventures* by identifying and explaining the principles that underlie IAS 28.
21. The staff provided an update on the project and asked GPF members for their views on:
    a. the importance of the application questions within the scope of the project and their experience with those application questions; and
    b. some application questions currently excluded from the scope of the project and their experience with those application questions.
22. In relation to the application questions within the scope of the project:
    a. a few GPF members confirmed the relevance of these questions and said they arise in practice. GPF members said the importance and pervasiveness of the questions vary.
    b. a few GPF members agreed it would be helpful if the IASB added requirements that would resolve the application questions, whereas other members said the requirements in IAS 28 and materials published by accounting firms is sufficient to resolve these questions
    c. one GPF member said that views differ on when an entity would be eligible for the exemption in paragraph 17 of IAS 28 from applying the equity method.
23. In relation to the application questions currently excluded from the scope of the research project, a few GPF members said these questions arise infrequently and that it is unnecessary to extend the project scope.
24. One member suggested including in the scope of the project if the cost of an investment accounted for using the equity method includes options not currently exercisable when the shareholders have agreed that certain decisions cannot be made until the exercise or expiration of those options.

Next steps

25. The staff will keep GPF members updated on the progress of the research project.

Subsidiaries without Public Accountability: Disclosures

26. The purpose of the session was to ask GPF members for their views on the benefits and implementation costs of the proposals in Exposure Draft *Subsidiaries without Public Accountability: Disclosures*. The Exposure Draft was published in July 2021 with a 180-day comment period that ends on 31 January 2022.

27. Overall, GPF members agreed with the objective of the proposed IFRS Standard and that it would benefit subsidiaries within its scope, specifically, subsidiaries without public accountability that have a parent—intermediate or ultimate—that produces consolidated financial statements complying with IFRS Standards.

28. During this session:

    a. some GPF members agreed that the proposals in the Exposure Draft would benefit subsidiaries, particularly those that apply local GAAP in their own financial statements, because they would avoid having to maintain another set of accounting records to reconcile with group reports (or vice-versa).

    b. one GPF member asked what the benefits of the proposals in the Exposure Draft are when a parent requires all the disclosures from its subsidiaries for consolidation purposes. An IASB member explained that the benefits should be likely because of the higher materiality level applied by the group in its consolidated financial statements that would be different from the lower materiality level applied by the subsidiary in its own reporting. A staff member said the entities would also avoid having to reconcile recognition and measurement differences between local GAAP and IFRS Standards.

    c. one GPF member commented that allowing pushdown accounting in the subsidiary's own financial statements could also reduce costs by removing the need to reconcile recognition and measurement differences between local GAAP and IFRS Standards.

    d. a few GPF members agreed with the scope of the proposed IFRS Standard in the Exposure Draft. One GPF member said that the scope could be widened to include other entities that are not subsidiaries, allowing them to benefit from the proposals.

    e. a few GPF members commented that some disclosures proposed in the Exposure Draft are extensive, in particular, the disclosures relating to hedging and derivatives, acquisition of a business and share-based payments.

Next steps

29. The staff will consider GPF members' comments together with the feedback on the Exposure Draft and present a summary to the IASB.

IASB Update

Primary Financial Statements—Project Status and Next Steps

30. The purpose of this session was to provide GPF members with an update on the IASB's redeliberations of the proposals in the Exposure Draft *General Presentation and Disclosures* published in December 2019 and to seek GPF members' views on whether the tentative decisions in the redeliberations to date would have effects on the cost of application that the IASB should consider.

31. Some GPF members said that for an entity using a financial reporting system based on standard costing, the proposals in the Exposure Draft for analysing expenses by nature in the notes when the entity presents operating expenses by function in the statement of profit or loss would be time consuming and costly to implement. A GPF member said that if the IASB were to drop this proposal, it would consider early implementation of the Standard, but that if the IASB retained the proposal, it would be impossible to implement the new standard within a three-year timeframe. Another GPF member added that both the entity and enterprise resource planning vendors would need to make system changes that could take five to 10 years.

32. The staff explained that the IASB is exploring how to reduce the costs of the proposal in the Exposure Draft, including by considering a partial matrix approach. An entity applying a partial matrix approach would provide limited information by nature for each function, for example, information about employee benefit expenses in cost of sales. GPF members' initial reactions to the partial matrix approach were that:

    a. a few GPF members asked the IASB to consider carefully what information users are seeking and questioned why information that is not useful for companies and their management in managing the business is useful to users.

    b. a GPF member said the partial matrix approach would be meaningless unless it was required by segment, because different segments have different profit margins and one figure for the entire entity would not be useful.

    c. a few GPF members questioned whether the requirement would be to provide costs incurred in the period, rather than amounts recognised as expenses. One member said that joint discussions with the Capital Markets Advisory Committee (CMAC) seemed to indicate that users would accept the disclosure of employee benefits included in the production costs for the period instead of the amount of employee benefits recognised as an expense in the cost of sales for the period.

    d. a few GPF members said that if the requirement is to disclose the amounts recognised as expenses in the period, providing disclosures about some items would be just as burdensome as providing information about all items because of the way a standard costing system generates information. For example, it is difficult to determine the amount of employee benefit expenses included in cost of sales because:

        i. there is no breakdown of the employee benefit costs in opening and closing inventory or capitalised in fixed assets;

ii. standard costs are based on a number of cost elements, but each time a product is sold the standard cost for the product is posted to cost of sales as a single number; and

iii. expenses such as those relating to information technology contain employee benefit costs that are gathered in a single cost centre and reallocated as information technology expenses.

33. One IASB member asked GPF members that present operating expenses by function to clarify the type of information they would use to further analyse expenses. GPF members gave examples such as:

    a. analysis by sub-function, for example, subdividing research and development expenses into separate types, business lines or regions depending on how the entity is managed; and

    b. analysis by margin, for example, gross profit margin can be analysed by considering more detailed information about sales mixes and cost variances.

34. An IASB member asked GPF members if it is possible to break down other functional line items, such as selling costs. A few GPF members said breaking down other functional line items would be less complex than breaking down the cost of sales, but practical problems in breaking down expenses would arise for all functional line items.

35. The staff explained that investors are requesting information about the nature of expenses to forecast future cash flows and not for margin analysis. The staff also acknowledged the concerns raised about unbundling the standard costing system. Even though IFRS Standards do not refer explicitly to the concept of 'costs', in exploring the partial matrix approach, the IASB is hoping to arrive at an approach in which the analysis would be based on costs and not expenses. Such an approach would make it easier for preparers to provide information and might, based on joint discussions with CMAC, reduce information loss to users of financial statements.

Other IASB Update

36. The GPF members received a summary of the IASB's current workplan, including an overview of the Request for Information Post-implementation Review of IFRS 9—*Classification and Measurement,* a summary of the feedback to the Third Agenda Consultation and an update on sustainability reporting developments.

IFRS Interpretations Committee Update

37. The GPF members received an update on the June 2021 and September 2021 meetings of the IFRS Interpretations Committee (Committee). Details of these meetings were published in IFRIC Update June 2021 and IFRIC Update September 2021.

Next meetings

38. The next GPF meeting will be held on 11 March 2022.