IFRS Accounting

Meeting summary

Capital Markets Advisory Committee

Date 8 March 2024
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This document summarises discussions at the meeting of the Capital Markets Advisory Committee (CMAC), a group of nominated members with extensive practical experience in analysing financial information and who are established commentators on accounting matters in their own right or through the representative bodies with which they are involved. The CMAC supports the IFRS Foundation and the International Accounting Standards Board (IASB) in their objectives, and contributes towards the development, in the public interest, of high-quality, understandable, enforceable and globally accepted IFRS Accounting Standards.

CMAC members who attended the meeting.

Region	Members
Asia-Oceania	Koei Otaki* Sunil Singhania* Ge Xiaobo
Europe	Meghan Clark Oliver Gottlieb* Kenneth Lee* Matthias Meitner Deirdre O'Leary* Philip Robinson Diego Salvador* Tony Silverman Jeremy Stuber
The Americas	Enitan Adebonojo Paulo Cezar Aragão* Anthony Scilipoti Michael Thom*

* Remote participation via videoconference.

Financial Instruments with Characteristics of Equity

1. The purpose of this session was:
   (a) to provide CMAC members with an overview of the project and the IASB's proposals related to presentation and disclosure in the Exposure Draft *Financial Instruments with Characteristics of Equity;* and
   (b) to obtain feedback on the usefulness of these proposals for investors.

Presentation proposals

2. CMAC members generally are of the view that separate presentation of amounts attributable to ordinary shareholders in the primary financial statements would provide useful information, especially for equity investors.
3. A CMAC member asked about the classification of non-voting preference shares, which in their jurisdiction have the same dividend and liquidation rights as ordinary shares. The member questioned whether it is necessary to allocate equity to other owners of the parent if the equity is shared equally among all the shareholders.
4. A few CMAC members proposed that equity instruments be further disaggregated by type—for example, perpetual bonds, preference shares and warrants—to signal to investors the relative complexity of an entity's equity structure. One CMAC member said understanding which instruments rank above ordinary shares is important in valuing the ordinary shares. However, another CMAC member said it makes sense to keep presentation simple by showing the split between ordinary shareholders and other owners of the parent and then supplementing this information with disclosures. This information would serve as a good starting point before delving into the alternative instruments. Also, in this member's experience, it is not common practice to show the attribution of profit to other owners of the parent in the statement of comprehensive income, so the proposed improvement in presentation would be very beneficial.
5. A few CMAC members would like additional guidance on the method for allocating amounts between ordinary shareholders and other owners of the parent—for example, for allocating profit or retained earnings.

Disclosure proposals

6. CMAC members generally expressed positive feedback about the proposed disclosure requirements, affirming their usefulness. One CMAC member said the disclosure requirements would primarily benefit equity investors because bond investors would have access to other information sources. However, some CMAC members disagreed with this view because not all information is available publicly—for example, information on private placements.
7. Regarding the disclosure requirements for terms and conditions, some CMAC members said the proposed disclosures would be useful and helpful, especially in emphasising the debt-like features of equity instruments and in understanding an entity's liquidity pressure and funding costs. However, CMAC members suggested that:
   (a) additional disclosure about coupons that have been accumulating instead of being paid would help equity investors who are not used to sourcing this information from the statement of changes in equity.
   (b) the terms and conditions disclosure requirements could focus on the possibility of dilution to equity holders and the likelihood of payments not being made while an entity is a going concern. This narrower focus would help to reduce the volume of disclosure requirements.
   (c) some guidance or illustrative examples to help bond investors analyse subordination factors would be useful—bond investors often struggle to analyse and understand the probability of default and thus require a wide credit risk spread to protect themselves. The CMAC member who suggested this guidance also said preparers might benefit from enhanced disclosure about subordination factors because more transparency about these factors could help to reduce preparers' funding costs.
   (d) ordinary shareholders need an entity to disclose material information about changes in conditions that occur between the reporting date and the entity's possible liquidation if these changes affect the returns on equity instruments.
8. A CMAC member said the proposed disclosure on the nature and priority of claims on liquidation would be very useful, particularly for financial subsidiaries. This disclosure could resolve many challenges in identifying the obligor and

understanding the subordination (both structural and contractual) within a group. Another CMAC member said disclosure about collateral and asset allocation between a parent and its subsidiary is useful for bond investors, particularly for senior bonds issued by the parents of real-estate developers in their jurisdiction.

9. A CMAC member raised a concern about whether the liquidation priority order is clear in all cases at a consolidated level—for example, if a subsidiary has issued a ring-fenced liability. Another CMAC member requested illustrative examples to help preparers and investors understand partnership structures in their jurisdiction, especially if the role of the general partner changes over time.

10. Regarding the proposed disclosure requirements for potential dilution of ordinary shares, a CMAC member agreed that a table showing what the expected dilution would be on occurrence of a trigger event would be useful for investors.

Next steps

11. After the consultation period ends, the IASB will analyse the feedback and redeliberate the proposals in the project. The feedback from CMAC members will be included in the analysis and will be considered in redeliberating the project proposals.

Post-Implementation Review of IFRS 9—Impairment

12. The purpose of this session was:

    (a) to share with CMAC members the feedback on applying the credit risk disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*, in response to the Request for Information Post-implementation Review of IFRS 9—Impairment (RFI); and

    (b) to seek input from CMAC members on identifying potential improvements to credit risk disclosure requirements.

13. CMAC members agreed with the feedback from stakeholders in response to the RFI that the credit risk disclosures that entities provide applying IFRS 7 vary extensively in quality and granularity. They suggested that the IASB consider improving the disclosure requirements for:

a. sensitivity analysis;

b. post-model adjustments or management overlays (PMAs); and

c. significant increases in credit risk (SICR).

Sensitivity analysis

14. CMAC members said information about how sensitive the allowance for expected credit losses (ECL) is to changes in the inputs, assumptions and techniques used to estimate ECL is important for their analyses. They suggested that the IASB require an entity to provide a sensitivity analysis, and that the IASB specify the format for this disclosure to facilitate comparability among entities.

15. A few CMAC members noted that some entities—for example, regulated financial institutions—already provide a sensitivity analysis. Therefore, these members said they would not expect providing this information to be too burdensome for preparers (see also paragraph 11).

Post-model adjustments or management overlays

16. CMAC members agreed with the feedback to the RFI that, generally, entities do not provide sufficient information to enable investors to understand the effect of the PMAs that entities use in estimating ECL. CMAC members reported that entities often fail to provide information about why they used PMAs, the amount of PMAs as at the end of the reporting period and movements in PMAs during that period.

17. Therefore, CMAC members suggested that the IASB require specific information about PMAs, including a reconciliation of movements from the opening to the closing balance of PMAs during the reporting period. The members would use such a reconciliation to understand the reasons for changes in PMAs. For example, they would use it to identify situations in which PMAs are being 'repurposed' from period to period and the reason for this repurposing.

Significant increases in credit risk

18. CMAC members expressed concerns about the major inconsistencies in the quality and granularity of information that entities provide about how they determine that SICR have occurred. These members stressed that high-quality

disclosure in this area is important because extensive management judgement is involved in deciding how to determine SICR. Using reasonable approaches and inputs to determine SICR is vital to avoid delaying the recognition of lifetime ECL.

19. These members said comparing entities' disclosures about how they determine SICR is almost impossible, and even obtaining a useful summary of information about the approach an entity follows to determine SICR is challenging (for example, the portion of financial assets that suffered SICR as a result of being 30 days past due versus other qualitative and quantitative factors).

20. They said the granularity of the information provided by entities varies considerably—some entities provide very detailed information about the factors they used to determine SICR for various groups of financial assets; other entities only provide a broad, and often 'boilerplate', description of the quantitative and qualitative factors they generally use to determine SICR.

21. They suggested that the IASB specify 'baseline' information an entity be required to provide about the approaches it has used to determine SICR. They also suggested that the IASB specify the format of the required disclosure to facilitate investor analysis.

Other areas

22. Consistent with the feedback to the RFI, a few CMAC members suggested that the IASB only enhance the disclosure requirements for financial institutions. In their view, by doing so, the IASB would ensure that the relevant information is obtained for entities that have significant exposure to credit risk, without undue burden for non-financial institutions. However, CMAC members acknowledged that IFRS 7 requires disclosure for financial instruments and is not an industry-specific Accounting Standard.

23. A CMAC member cautioned that distinguishing between requirements that apply to financial versus non-financial institutions might add complexity for entities such as conglomerates that consist of entities operating in various industries.

24. Regarding credit risk disclosures for non-financial institutions, CMAC members said the most useful disclosures for their analysis are:

a. disaggregation of trade receivables by days past due;

b. the reconciliation from the opening balance to the closing balance of the ECL allowance, showing separately the changes during the period; and

c. information about concentration of counterparty credit risk.

Next steps

25. In Q2 2024 the IASB will discuss the feedback on credit risk disclosures, including the input from CMAC members, and decide on potential actions, if any, in response to that feedback.