Meeting summary

Global Preparers Forum

Date **Friday 15 November 2024**

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This document summarises a meeting of the Global Preparers Forum (GPF), a group whose members have considerable practical experience of financial reporting. The group's members are also established commentators on accounting matters in their own right, or through working with the representative bodies in which they are involved. The GPF 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.

GPF members who attended the meeting.

Region	Members
Africa	Keshni Kuni*
Asia-Oceania	Lily Hu Srinath Rajanna* Kazuhiro Sakaguchi Amrita Srikanth* Feifei Wang
Europe	Frédéric Agnès Ernesto Escarabajal Baadenhuijsen Ian Bishop Emmanuelle Guyomard Stephen Morris Stefan Salentin* Nico Wegmann*
The Americas	Jeff Davidson Sallie Deysel Maria Alejandra Hryszkiewicz Patrick Matos*

* This member participated remotely.

Post-implementation Review of IFRS 16 *Leases*

1. The purpose of the session was:
    a. to gather GPF members' views on the implementation and application of IFRS 16; and
    b. to help the IASB scope a request for information (RFI)—that is, to identify matters to include in the RFI for public consultation.
2. IASB technical staff asked GPF members whether:
    a. IFRS 16 is working as intended;
    b. the actual benefits and (implementation and ongoing) costs of IFRS 16 differ significantly from what was expected; and
    c. application questions arise that the IASB or the IFRS Interpretations Committee needs to answer.
3. IASB technical staff also asked GPF members about how challenging the transition to IFRS 16 was, which requirements helped to make that transition less challenging and whether they would recommend that the IASB should do anything differently in its future standard-setting.

Overall assessment

4. Many GPF members said that it is unclear whether IFRS 16 has achieved its objectives because for their management purposes they need to produce information that would have been produced had IFRS 16 not been applied. In addition, the GPF members said that some users of their financial statements also use pre-IFRS 16 data and, so, these users adjust their models accordingly. For example, these adjustments are:
    a. not to include lease liabilities in net debt calculations;
    b. to include lease expenses in EBITDA as a proxy for the free cash flow measure used to value companies; and
    c. to reclassify lease payments from financing cash flows to operating cash flows in order to represent the substance of leases more faithfully.
5. However, some GPF members said that IFRS 16 has improved financial reporting and is working as intended. In their opinion:

   a. the presentation of leases in the statement of financial position is conceptually right; and
   b. IFRS 16 has improved the transparency of financial information.

Benefits and costs

6. Some GPF members said that IFRS 16 has been of little benefit and the users of their financial statements are not interested in its effects. However, one GPF member said that the elimination of the requirement to determine whether a lease is a finance lease or an operating lease has been beneficial, because it has reduced their workload.
7. A few GPF members commented on the comparability of financial information. In their opinion:
   a. differences between the requirements in IFRS 16 and US GAAP significantly reduce the comparability of information and increase costs; and
   b. the need to apply judgement in determining discount rates and lease terms might reduce comparability.
8. Many GPF members said that the implementation of IFRS 16 was costly because of the need to apply the new accounting model to many contracts, the significant judgement involved in lease accounting and the need to implement expensive IT solutions.
9. There were mixed views on whether the ongoing costs were higher than expected. Some GPF members said that the ongoing costs remain high because, for example:
   a. entities have to maintain internal controls over lease accounting processes, including Sarbanes-Oxley controls for US reporters;
   b. auditors still need to verify those controls and processes; and
   c. the application of IFRS 3 *Business Combinations* to leases is onerous, because that Standard requires acquired leases to be measured at fair value. However, entities might often need to report leases as if an acquisition had not happened, which requires entities to maintain two accounting records.
10. However, some GPF members said that the ongoing costs were reasonable.

Transition

11. Some GPF members said that the implementation of IFRS 16 was costly and challenging because there was a lack of fully developed IT solutions when IFRS 16 was being implemented. Consequently, preparers needed to make significant investments in customising software purchased from external suppliers or in developing their own solutions—for example, workarounds based on Excel spreadsheets.
12. Some GPF members said that the various transition options, transition reliefs and recognition exemptions were helpful.
13. A few GPF members suggested that the IASB should, in future, consider the availability of IT solutions, or provide education to software suppliers, before it issues an IFRS Accounting Standard that might have as significant an impact on the preparation of financial statements as did IFRS 16.

Application questions

14. Many GPF members commented on the application matters that the IASB should consider including in the RFI for public consultation. In particular, members commented that:
    a. the determination of discount rates remains costly and is challenging because it requires an entity to make significant judgements, which might lead to diversity in practice or result in rates that do not reflect the actual cost of the entity's debt.
    b. the threshold of $5,000 for the low-value assets recognition exemption is not helpful. It leads to diversity in practice and in some cases complicates discussions about materiality. A few GPF members suggested removing the $5,000 threshold from the Basis for Conclusions on IFRS 16 and cautioned against including any specific amounts in future IFRS Accounting Standards.
    c. the reference to cars in the application guidance accompanying IFRS 16 has led to significant additional implementation and running costs without any associated benefits, and diversity in practice; there is moreover a lack of clarity about how to treat other motor vehicles. The member suggested the IASB should consider removing the last sentence of IFRS 16.B6.

d. the requirements on the determination of a lease term are challenging and their application might lead to diversity in practice.

Next steps

15. The IASB will consider the feedback from GPF members when identifying the matters to include in the RFI. The RFI is expected to be published in the first half of 2025.

Statement of Cash Flows and Related Matters

1. The purpose of the session was to better understand the nature and the prevalence of the issues with the statement of cash flows and related information discussed in the June 2024 joint CMAC-GPF meeting. The staff asked GPF members to share their experiences with each of the issues identified in that meeting.
2. Many GPF members described their systems and processes for preparing a statement of cash flows in accordance with the requirements of IAS 7 *Statement of Cash Flows*. These systems could broadly be classified as:
    a. a mostly automated system with a ‘cash flow dimension’ being identified at the journal-entry level;
    b. a mostly automated system but with periodical balance-sheet changes made manually, distinguishing between cash and non-cash changes, and with the process facilitating a system-generated statement of cash flows; or
    c. a mostly manual system of preparing reconciliations with the assistance of some automated information.
3. The varying systems were, unsurprisingly, described as having varying reporting capabilities and limitations. GPF members described some of the systems’ limitations:
    a. the cash flow information tracked by a system needs to be identified and set up in advance.
    b. identifying the cash and non-cash effects of specific expense items requires setting up a system to identify accounts payable at the level of those expenses.

   c. separating the cash and non-cash effects of changes in inventory balances is especially challenging due to the allocations of varying expenses which also contribute to changes in the balances of other assets and liabilities.

4. Most GPF members suggested targeted changes to the requirements in IAS 7 requiring entities to provide more detailed cash flow information in some areas would better facilitate the information needs of the users of financial statements. GPF members commented on the following topics:
   a. classification of cash flow information;
   b. disaggregation of cash flow information;
   c. provision of additional information about 'free cash flows'; and
   d. reporting of cash flows from operating activities.
5. Some GPF members said that they classify some cash flows for internal purposes in a way that differs from the classification required by IAS 7 or other IFRS Accounting Standards. For example, many said that, internally, they classify lease payments as operating cash flows rather than as financing cash flows, and some said that they classify tax outside of operating cash flows. A few said that, internally, they classify contingent consideration on acquisitions as investing activities. However, some members said that they did not expect the Statement of Cash Flows and Related Matters project to result in significant changes to the structure of cash flows from operating, investing and financing activities.
6. Some GPF members said that a lack of guidance on classifying some transactions might result in inconsistency. For example, guidance is lacking, they said, on classifying: cash flows from shares withheld on employee stock options; cash flows from deferred consideration on acquisitions; and trade payables with extended credit terms.
7. Most GPF members said that they do not disaggregate information on capital expenditures between growth and maintenance, and that doing so would be difficult. One member said that such a disaggregation is important in their industry where there is guidance on doing that disaggregation between growth and maintenance capital expenditure. However, this member also said that, because judgement is involved, there are still inconsistencies in the application of the requirements.

8. Some GPF members said that they are asked for more detailed information about cash flows other than information about capital expenditures from growth or maintenance. For example, information about cash outflows related to specific projects or asset classes or information about cash flows for research and development. These members said that it might be more useful to users of financial statements if an entity were required to provide more detailed and disaggregated information about cash flows for capital expenditures. For example, additional narrative disclosures, or links to related information, such as capital commitments. They suggested that such information would enable users to make their own judgements about whether an entity's capital expenditures related to growth or maintenance.
9. A few GPF members said that they provide cash flow information relating to business segments outside the financial statements. Some of these members said that they do so because there are difficulties in classifying some cash flow information by segment in the manner required by IAS 7. For example, one member said that it is not possible to allocate tax cash flows to segments' operating profits.
10. Many GPF members said that they provide a non-GAAP cash flow measure labelled as 'free cash flows'. However, many members said that they did not see any value in trying to define 'free cash flows' because there is not a consensus on how it should be calculated. Some members said that a more efficient approach might be to specify a measure to which varying definitions of 'free cash flows' could be reconciled, thereby facilitating more transparency and giving users the information needed for their analyses. Some members suggested using a label other than 'free cash flows' to identify that subtotal. Moreover, the IASB should, they said, consider a similar approach to that followed in IFRS 18 *Presentation and Disclosure in Financial Statements* regarding the performance measure EBITDA, in which the IASB defined 'OPDAI' ('operating profit before depreciations, amortisation and impairment') to which various measures of EBITDA could be reconciled as a management-defined performance measure.
11. A few GPF members said that they use both direct and indirect methods to report cash flows from operating activities and that the resulting information is useful. Some of these members said that they use the direct method for internal purposes to obtain

further insights regarding an entity's operating cash flows or to assess the accuracy of the cash flows reported using the indirect method. One member said that he does not use the direct method for external reporting due to the information not being precise enough.

12. A few GPF members said that basic errors are made in the preparation of statements of cash flows, partly, because accountants are insufficiently trained in this area. These members said that IAS 7 has a role in providing practical guidance to address this knowledge gap. They suggested that, by developing application guidance, illustrative examples or a basis for conclusions, the IASB might help to resolve some of the common application issues.
13. Other comments made by a few GPF members:
    a. it is important to consider the application of the requirements on classifying cash equivalents. For example, the application of maturity basis in determining cash equivalents.
    b. a different set of requirements will be needed for the statement of cash flows for financial institutions.

Next steps

GPF members were offered an opportunity to discuss further the proposals directly with the project team. The IASB will consider the feedback from GPF members in deciding what topics to explore further in the project.

Equity Method

1. The purpose of this session was to seek GPF members' views on the proposals in the Exposure Draft *Equity Method of Accounting—IAS 28* Investments in Associates and Joint Ventures *(revised 202x)*.
   In this section of the meeting summary, use of the term 'investor' refers to the entity having significant influence over an associate or a joint venture, as per IAS 28.

Purchase of additional ownership interests

2. The IASB is proposing that an investor, at the date of purchasing an additional

ownership interest in an associate or joint venture, be required to determine the fair value of its additional share of the associate's or joint venture's net assets. The investor would also be required to account for any difference between this amount and the fair value of the consideration transferred as goodwill, which, under the proposals, would be included in the carrying amount of the investment or accounted for as a gain from a bargain purchase. The staff explained to GPF members that the preliminary feedback indicated that the costs of implementing this proposal may outweigh the benefits of doing so. The staff asked GPF members for their views.

3. One GPF member agreed with the preliminary feedback and suggested that the IASB provide an exemption such that a determination would not be required if, at the date of purchasing an additional ownership interest, any such determination of the fair value of the additional share of the associate's or joint venture's net assets would have no material effect on the investor's future share of profit or loss.
4. One GPF member said that investors might have limited access to information from associates, which adds to the difficulty of determining fair values. For this reason, the IASB should provide simplifications, he said. However, the GPF member acknowledged that, by adding to the goodwill (included in the carrying amount of the investment) the fair value of the consideration transferred for the additional interest, the risk of impairment was increased. He suggested that the IASB could explore whether an investor might be required to write off goodwill to either equity or profit or loss at the date of the purchase.
5. One GPF member said that when the purchase of an additional ownership interest results in a gain from a bargain purchase, the gain should be offset against any goodwill included in the carrying amount of the investment. This treatment would contribute to reducing the amount of goodwill.

Transition requirements—gains or losses from transactions with associates and joint ventures

6. The IASB is proposing to require an investor to recognise in full all gains or losses on its transactions with associates and joint ventures. More specifically, the IASB is proposing that an investor, on transition to the revised IAS 28, would be required to adjust the carrying amount of such an investment for the remaining portion of the

restricted gains or losses with a corresponding adjustment in retained earnings. The staff explained to GPF members that preliminary feedback suggested that information about the remaining portion of such restricted gains or losses was not always available to an investor. The staff asked GPF members for their views.

7. One GPF member agreed and said that the IASB's proposal would require an investor to collect information on all past transactions, which would be costly. He would support prospective application of the proposals.

Separate financial statements

8. The IASB is proposing that a parent applying the equity method to its subsidiaries in its separate financial statements would be required to apply the same requirements, as set out in the Exposure Draft, including recognising full gains or losses on transactions.
9. One GPF member disagreed with this IASB proposal. He noted that the proposal is based on the argument that associates are not part of a group; but, he said, this argument does not hold for subsidiaries in a parent's separate financial statements. The GPF member said that the IASB should debate the purpose of the equity method and of separate financial statements before finalising its proposals.

Other comments

10. Some GPF members and IASB members exchanged views on the project approach, which is to reduce diversity in practice by answering application questions on the equity method of accounting. IASB members said that the IASB should not expand the objective of the project to include a discussion about the conceptual nature of the equity method, or to ask whether the equity method provides relevant information.
11. One GPF member noted that the equity method is not perfect but, he acknowledged, there may not be a better alternative. He supported the current objective to solve application issues but encouraged the IASB to focus on practical solutions.

Next steps

12. The Exposure Draft is open for comment until 20 January 2025. After the

consultation period ends, the IASB will analyse the feedback and redeliberate the current project proposals. The feedback from GPF members will be included in the analysis and will be considered as part of the redeliberation.

Climate-related and Other Uncertainties in the Financial Statements

1. The purpose of this session was:
   a. to provide GPF members with an overview of the Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements*; and
   b. to ask members for their feedback on the proposals set out in the Exposure Draft.
2. GPF members were asked whether they agreed:
   a. that providing examples to illustrate how an entity applies IFRS Accounting Standards in order to report the effects of climate-related and other uncertainties in its financial statements would help to improve the reporting of these effects;
   b. with including the examples as illustrative examples accompanying IFRS Accounting Standards; and
   c. with the approach to developing the examples, including the selection of requirements, fact patterns and technical content.

Summary of the feedback

Providing illustrative examples

3. GPF members generally supported providing examples to help improve the reporting of the effects of climate-related and other uncertainties in the financial statements. They also generally agreed with including the examples as illustrative examples accompanying IFRS Accounting Standards.
4. A few GPF members said that developing illustrative examples was the right approach to improving disclosures in this area, and that standard-setting was unnecessary. These members said the examples were helpful. One GPF member said that the disclosures illustrated in the examples were consistent with the

disclosures that some entities already make in practice to comply with the requirements in IFRS Accounting Standards, although other entities considered such disclosures to be voluntary.

Approach to developing illustrative examples

5. GPF members generally agree with the approach to developing the examples, including the selection of requirements, fact patterns and technical content. However, a few GPF members suggested that the examples should relate only to climate-related uncertainties. These GPF members said that the Exposure Draft did not define the term ‘other uncertainties’ and that trying to provide examples of such uncertainties could lead to unintended consequences. However, one GPF member agreed with generalising the objective of the project to cover other uncertainties.

6. Many GPF members expressed concerns about Example 1 (‘Materiality judgements leading to additional disclosures (IAS 1/IFRS 18)’). These GPF members expressed concerns that some stakeholders might interpret this example as requiring entities to include a ‘statement of no effect’ (or a ‘negative confirmation’) in their financial statements in relation to the various risks that an entity may face. In addition:

   a. one GPF member disagreed with the example, saying that an entity should not disclose information about things that have not affected its financial position or financial performance nor try to anticipate investors’ expectations. That GPF member said Example 1 would not set a good precedent.

   b. a few GPF members said that it was difficult to understand the reason why disclosure was necessary in the fact pattern, and what created the expectation for such disclosures. These GPF members suggested providing a clearer explanation of how the entity in Example 1 determined that the information it disclosed was material—for example, by adding more qualitative factors to the example. The members also suggested clarifying why investors might expect the financial position and performance of the entity in that fact pattern to be affected.

7. Some GPF members also expressed concerns about Example 8 (‘Disclosure of disaggregated information (IFRS 18)’). These GPF members questioned whether

disaggregation based on climate-related risks is necessary or practical; and they expressed concerns that this example could result in excessive disaggregation based on various types of risks. One GPF member also noted that similar information could be provided when an entity makes disclosures about different operating segments.

8. A few GPF members suggested that some of the proposed disclosures might be more appropriate in general purpose financial reports outside an entity's financial statements, such as in its sustainability-related financial disclosures.

Next steps

9. The IASB will consider the feedback from GPF members when it reviews all stakeholder feedback on the Exposure Draft at a future IASB meeting.

Standard-setting updates

1. An IASB and IFRC Update was provided to GPF members, followed by a Q&A session. The Chair of the GPF meetings mentioned the Provisions Exposure Draft's publication and offered GPF members an opportunity to discuss the proposals directly with the project team.

2. An ISSB Update was also provided to GPF members, followed by a Q&A session.