

## Joint CMAC–GPF Meeting

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This document summarises discussions at the joint meeting of the Capital Markets Advisory Committee (CMAC) and the Global Preparers Forum (GPF), two groups 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 and the GPF support the IFRS Foundation and the International Accounting Standards Board (IASB) in their objectives, and contribute towards the development, in the public interest, of high-quality, understandable, enforceable and globally accepted IFRS Accounting Standards.

## CMAC and GPF members who attended the meeting

Region	CMAC Members	GPF Members
Africa		Keshni Kuni
Asia-Oceania	Koei Otaki* David Soh Kei Tsuchiya Ge Xiaobo	Lily Hu Srinath Rajanna Kazuhiro Sakaguchi Feifei Wang*
Europe	Christopher Bamberry Meghan Clark Oliver Gottlieb Jacques de Greling Kenneth Lee Matthias Meitner Thomas Rahman Diego Salvador Barerro Tony Silverman	Frédéric Agnès Ian Bishop Ernesto Escarabajal Baadenhuijsen Emmanuelle Guyomard Stephen Morris Stefan Salentin Nico Wegmann

	Joao Toniato Larissa van Deventer Marcel Voogd	
The Americas	Enitan Adebonojo Paulo Cezar Aragão Anthony Scilipoti Michael Thom*	Sallie Deysel Maria Alejandra Hryszkiewicz Patrick Matos* Michael Tovey

\*Remote participation via videoconference.

### IASB and IFRS Interpretations Committee Update

1. The purpose of this session was to update members on the IASB's current work plan and on the activities of the IFRS Interpretations Committee.

### Structuring disclosures

2. The purpose of this paper was to seek CMAC and GPF members' views on the usefulness and costs of structured disclosures, including whether disclosures of specific types or with particular characteristics are more useful when they are reported in a structured manner.
3. Feedback on this paper will inform the development of an internal guidance document to support the IASB and the ISSB in the development of presentation and disclosure requirements in future standard-setting projects that would result in more structured disclosures.
4. CMAC and GPF members commented that the scope of the questions was quite broad, but their feedback reflected a shared commitment to enhancing the quality, understandability, and usability of disclosures made in accordance with IFRS Standards.
5. Both CMAC and GPF members found it hard to differentiate between structure and formatting, and said that achieving structure might mean using some degree of

formatting, such as tables. CMAC and GPF members also discussed the need to balance the benefits of structured disclosures—such as improved comparability, understandability and reliability—and the costs of preparing those structured disclosures, particularly in situations in which the information to be disclosed is not readily available.

### **Feedback from CMAC members**

6. CMAC members emphasised the importance of consistent terminology within financial statements—that is, referring to the same items using the same terminology and referring to dissimilar items differently—because using different terminology to refer to similar items can lead to confusion among users.
7. CMAC members said that reconciliations and structured disclosures enhance the useability and reliability to investors of information in the financial statements, especially information disclosed in those statements that investors use in structured data models.
8. CMAC members stressed the importance, for better decision-making, of connecting the primary financial statements with additional disclosures, such as note disclosures and management discussions, to create a cohesive, internally consistent set of disclosures.

### **Feedback from GPF members**

9. GPF members commented that it is straight-forward and less resource-intensive to incorporate structure in disclosures by reporting the information that is already available to preparers. However, providing additional information that is not readily available to achieve the necessary structure might be costly, and therefore the costs of preparing those structured disclosures would need to be evaluated on a case-by-case basis.
10. GPF members raised concerns that rigid adherence to a more structured form of reporting could result in entities disclosing suboptimal information or information of little relevance, potentially reducing the overall usefulness of the disclosures.

11. GPF members acknowledged that while a well-defined structure can help establish confidence in the quality of disclosed data, it could also expose preparers to vulnerabilities when the information is not readily available to be disclosed.
12. GPF members recognised that across the market, there is evidence of best practice, but there remains a need for many preparers to elevate the quality of disclosures to meet evolving market demands.

### Next step

13. The staff will use the detailed feedback from both CMAC and GPF members to help create internal guidance that can inform the IASB and ISSB's future standard-setting (in the same way as the guidance on developing disclosure requirements that arose from the *Disclosure Initiative—Targeted Standards-level Review of Disclosures* project).

## Statement of Cash Flows and Related Matters

14. The purpose of this session was to ask CMAC and GPF members for their views on entities:
  - (a) providing transparency about the composition of assets and liabilities considered to be working capital ('working capital assets and liabilities');
  - (b) providing better information about the changes in the carrying amounts of working capital assets and liabilities; and
  - (c) applying the approach for management-defined performance measures (MPMs) from IFRS 18 *Presentation and Disclosure in Financial Statements* to cash flow measures if such measures are not specified in IFRS Accounting Standards.

### Transparency about the composition of working capital assets and liabilities

15. To facilitate the discussion, the staff illustrated two ways to improve transparency about the composition of working capital assets and liabilities, namely using:
  - (a) an entity-specific approach—in which a company provides information about the assets and liabilities it considers to be working capital; or

- (b) a specified approach—in which a company would be required to provide information about specified assets and liabilities.
16. As context for the questions asked, CMAC members explained that the main problem with information about the composition of working capital assets and liabilities is that users are unable to link the statement of financial position to the statement of cash flows.
17. CMAC and GPF members also said that the composition of working capital differs between industries, between companies and, also, over time for a company. Therefore, most members preferred an entity-specific approach to providing information. However, to avoid the possible loss of some useful information about relevant assets and liabilities, some CMAC members said that an entity-specific approach might need to include some minimum specified items—for example, inventory, trade receivables and trade payables.
18. Some CMAC members said that an entity-specific approach provides useful information about management's views. Such an approach would need to include a requirement that entities explain what items are included in working capital, how the composition might change over time and how these items link to the assets and liabilities presented in the statement of financial position.
19. A few CMAC and GPF members cautioned that a purely entity-specific approach might be restrictive if the disclosures include only changes in assets and liabilities for which the cash flows are classified as 'operating'. Some entities include, in their definitions of working capital, changes in assets and liabilities for which the cash flows are classified as 'investing' or 'financing'.
20. A few CMAC members commented that information about the composition of working capital assets and liabilities at a consolidated level might not be as useful if disclosed by a company with diversified businesses. Information about the composition by operating segment would be more useful in such cases. Some GPF members said they already have such information for internal management purposes while others said that requiring such disclosure might require arbitrary allocations of amounts if the information is not managed at a segment level.

### **Better information about the changes in the carrying amounts of working capital assets and liabilities**

21. To facilitate the discussion, the staff illustrated:
  - (a) reconciliations of the opening to closing carrying amounts of inventory, trade receivables and trade payables. The line items were disaggregated between the different types of changes, including showing separately the changes recognised in profit or loss and the changes from direct cash flows.
  - (b) possible adjustments to the reconciliations for the level of aggregation of:
    - (i) the items of assets and liabilities for which separate reconciliations are provided; and
    - (ii) the types of changes in the carrying amounts of those assets and liabilities that are shown separately.
22. CMAC members find reconciliations useful because they enable them to link the statement of financial position to the statement of cash flows. GPF members explained that preparing all the reconciling line items would require significant costs. Many GPF members said inventory posed the biggest challenge, followed by direct cash flow information for other items. A few GPF members also mentioned the allocation of translation adjustments and complexities within consolidated financial statements of large or diversified groups.
23. Some CMAC and GPF members agreed that the IASB should try to find a middle ground that balances the information users can get from full reconciliations and the challenges with preparing them. Such an approach might involve providing separately information about the types of changes in working capital assets and liabilities, while providing a balancing figure without explanation.
24. One CMAC member said that there might be an argument for developing a working-capital statement that links to the statement of cash flows and the statement of financial position. A GPF member said disclosures for interim reports might also need to be considered.

### **Applying the approach for MPMs to cash flow measures if such measures are not specified in IFRS Accounting Standards**

25. Most CMAC and GPF members said that the most important cash flow measures are related to operating activities—especially free cash flow measures. They said that few cash flow measures relate to investing and financing activities. However, while most measures relate to operating activities, some free cash flow measures include adjustments that relate to investing and financing activities. A few CMAC members said that if management includes cash flow measures related to investing and financing activities in its public communications, information about those measures should be disclosed.
26. Most CMAC and GPF members expected that the MPM disclosure requirements would work well for cash flow measures—including requirements to provide information about any changes in calculation methods. CMAC members expect that the MPM reconciliations and accompanying explanations will be useful. GPF members said they already prepare such information for cash flow measures that they report outside of the financial statements. However, challenges might arise if they are required to provide more disaggregated reconciling information than they currently prepare.
27. Some CMAC and GPF members said that disclosure of the income tax effect and the effect on non-controlling interests (NCIs) for each item in the MPM reconciliation would not apply to cash flow measures. One member said information about cash flows attributable to NCIs is generally important, and that the same might apply to items in an adjusted cash flow measure.
28. CMAC and GPF members generally said that no additional disclosures would be needed for cash flow measures in addition to those required in IFRS 18. However, a few members said that to check the accuracy of this conclusion it would be helpful to test how the MPM approach applied to various cash flow measures. A few CMAC members suggested that if a reconciliation item that distinguishes between growth and maintenance capital expenditure is disclosed, the IASB would need to explore whether more disclosure is necessary to take account of differences in how entities distinguish between growth and maintenance.
29. A few CMAC members suggested that a standardised definition of ‘free cash flow’ would be helpful to debt investors because a measure relating to free cash flow is often included in debt covenants. They noted that having to manage different

approaches for every borrower becomes complex. Some other CMAC members said an entity-specific approach provides more useful information. One member said additional defined subtotals within the operating category might be useful.

### **Next step**

30. The staff will use this feedback when developing agenda papers for future meetings of the IASB.

## **ISSB Update**

31. The purpose of this session was to update members on the ISSB's current work plan.

## **Business Combinations—Disclosures, Goodwill and Impairment**

32. The purpose of the session was to seek CMAC and GPF members' views on potential alternative approaches to identify the subset of business combinations for which performance information would be required. CMAC and GPF members were asked for their views on:
  - (a) a rebuttable presumption approach for identifying the subset; and
  - (b) the necessity of the proposed operating profit threshold for identifying the subset.

### **Rebuttable presumption approach**

33. Most CMAC and GPF members said the benefits of a rebuttable presumption approach would justify the costs. These CMAC and GPF members said a rebuttable presumption approach could reduce the pressure to set perfect thresholds and avoid requiring entities to disclose information for business combinations which would be inappropriately captured by a threshold approach. However, some members, including many GPF members, said a rebuttable presumption approach would require more judgement and could increase tension with auditors, adding costs and potentially resulting in inconsistent application.



34. A few CMAC and GPF members highlighted the importance of developing a principle, or basis for rebuttal, that would not be overly subjective and could be understood and applied on a consistent basis. A few GPF members acknowledged that developing a principle that identifies business combinations that are important to users, while being practical to apply, could be difficult.
35. CMAC and GPF members discussed possible principles for identifying the most important business combinations. These principles could be used as bases for rebuttal. The agenda papers suggested two possible principles—business combinations for which:
- (a) failure to meet any one of an entity's acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy; or
  - (b) success is essential for the advancement or achievement of an entity's overall business strategy.
36. After considering these suggested principles:
- (a) most CMAC and GPF members said either of the suggested principles could be effective.
  - (b) a few CMAC and GPF members preferred the positively worded suggested principle set out in paragraph 33(b), because entities typically focus on factors that drive the success of business combinations rather than those that might cause it to fail.
  - (c) some CMAC and GPF members said the suggested principles would be ineffective. They said subjectivity of the suggested principles would lead to undue costs and few entities would disclose performance information due to entities being able to rebut the presumption.
37. One CMAC member said factors that would make a business combination important include risk, growth and cash flow profile, but acknowledged that translating those factors to a principle that could be used as a basis for rebuttal would be difficult. Some GPF members requested indicators or application guidance to supplement the

principle (for example, the qualitative thresholds proposed in the [Exposure Draft Business Combinations—Disclosures, Goodwill and Impairment](#)).

38. CMAC and GPF members had mixed views on whether, in a rebuttable presumption approach, entities should also be required to consider whether to rebut the presumption that disclosing performance information is not required and disclose information for business combinations that do not meet the thresholds (two-way rebuttal). After considering this issue:
- (a) members in favour said the approach is conceptually sound and could capture transformational acquisitions;
  - (b) members not in favour said the approach could be onerous for entities with numerous business combinations annually and might heighten tension with auditors;
  - (c) some CMAC and GPF members said entities would rarely rebut and disclose information about business combinations that do not meet the thresholds; and
  - (d) a few CMAC and GPF members said a two-way rebuttal would only work if the principle or basis for rebuttal were not overly subjective and could be understood and applied on a consistent basis.
39. Regarding a requirement for entities to disclose the fact of and reason for any rebuttal:
- (a) most CMAC and GPF members said entities should disclose the fact of and reason for rebutting the presumption, if applicable.
  - (b) a few CMAC members said they would support a rebuttable presumption approach only if entities would be required to disclose the fact of and reason for a rebuttal. These CMAC members said they would use the information to assess stewardship, make comparisons with other entities and see how an entity tells its story over time.
  - (c) some GPF members expressed concern that disclosing the reason for rebuttal could conflict with other stakeholder communication, risk boilerplate disclosure or lead to lengthy discussions with auditors.

- (d) a few GPF members said a specific disclosure requirement might be unnecessary, because paragraph 31 of IAS 1 *Presentation of Financial Statements* already requires disclosure of material information.

### **Operating profit threshold**

40. Some CMAC and GPF members said removing the operating profit threshold might result in failure to capture an acquisition of a high-margin business by an asset-intensive business within the subset of business combinations.
41. Some CMAC and GPF members said an operating profit threshold could work as part of a rebuttable presumption approach, because entities could rebut the presumption if the operating profit threshold inappropriately captured business combinations.
42. Some CMAC and GPF members had mixed views on whether and how to adjust the operating profit threshold, for example, by using average or adjusted operating profit.

### **Other topics**

43. Many CMAC and GPF members commented on the percentage used for the quantitative thresholds. Some GPF members suggested increasing the percentage from 10% to 15% or 20%. A few CMAC members said they would agree with increasing the percentage only if a business combination which results in a new operating segment would be captured within the subset of business combinations.
44. One CMAC member suggested considering a dual threshold approach, allowing entities to rebut the presumption if the acquiree failed to exceed 20% of the acquirer's comparative amounts, but to prohibit rebuttal if the acquiree exceeded 20%.
45. Many CMAC members said it would be important to capture a series of business combinations undertaken for a single objective. However, most members acknowledged there is no easy way to achieve this. One CMAC member suggested requiring entities to disclose the fact that they have engaged in a series of business combinations within a jurisdiction or market over a specific timeframe, but not requiring entities to disclose performance information about the series.

46. A few GPF members also said:
- (a) only listed companies should be required to disclose performance information; and
  - (b) the asset threshold would capture too many transactions.

### Next step

47. The IASB will consider the comments from CMAC and GPF members when it redeliberates its proposals at a future IASB meeting.

## Equity Method

48. The purpose of this session was to present:
- (a) the feedback on the proposal in the [Exposure Draft Equity Method of Accounting—IAS 28 Investments in Associates and Joint Ventures](#) on the application question: ‘how does an investor apply the equity method on the purchase of an additional ownership interest in an associate or joint venture?’; and
  - (b) the feedback on other proposals in the Exposure Draft, and seek initial views on how the IASB could respond to this feedback.

### Application question—purchase of an additional ownership interest in an associate or joint venture

49. Most GPF and CMAC members agreed with the feedback on the proposal in the Exposure Draft that estimating the fair values of the associate’s net assets at the date of purchase of each additional ownership interest creates cost and complexity. GPF members said:
- (a) the cost might outweigh the benefit of information to users of financial statements in cases involving minor or frequent purchases of additional interests;
  - (b) investors might have limited access to information and therefore might not be able to estimate the fair value of the associate’s net assets;

- (c) the investor would be required to separately track the fair value adjustments made at each purchase date for the purpose of calculating the share of profit or loss. This would add to the cost of applying the equity method.
50. One CMAC member agreed with the proposal in the Exposure Draft, because estimating the fair values in that way would reflect the value of the capital invested and provide information to assess the management's stewardship.
51. Some GPF members shared their current practices for applying the equity method to purchases of additional ownership interests; some members apply an accounting policy aligned to the proposal in the Exposure Draft, whereas other members recognise all the consideration paid as goodwill included in the carrying amount of the investment.
52. Some GPF and CMAC members agreed that, if the IASB affirms its proposals, the IASB should provide relief. GPF and CMAC members suggested:
- (a) allowing the use of the carrying amounts in the investor's financial statements (that is, the fair value when the investor obtained significant influence plus post-acquisition changes) when the additional purchase is insignificant. They also said that in this situation, materiality assessment would be necessary.
  - (b) providing relief when purchases of additional interests occur at short intervals, such as within one year of each other, or when there is no evidence of material changes in the fair values of the associate's net assets.
  - (c) explaining how to apply materiality, in that materiality should be assessed in relation to the effect on the investor's share of the associate's profit and loss of the fair value adjustments.
53. Some CMAC members said that remeasurement of the previously held interest could provide useful information, because the measurement of the investment would be close to fair value, which they deemed the most relevant measure. However, some GPF and CMAC members disagreed with this alternative and noted that this

approach could be used to manage earnings by recognising gains on retained shares.

54. Some CMAC members said it would be useful to require disclosures on significant changes in the fair values of an associate's net assets at the date of purchase.

### Other comments

55. One GPF and one CMAC member raised a concern about the proposal to recognise a bargain purchase gain on a purchase of an additional ownership interest when the carrying amount of the investment includes goodwill. These members took the view that the bargain purchase gain should be deducted from the goodwill included in the carrying amount of the investment.

### Next step

56. The IASB will consider the feedback from GPF and CMAC members when redeliberating proposals on the Exposure Draft.

## Fourth Agenda Consultation

57. The purpose of the session was to seek CMAC and GPF members' help in developing a list of potential projects that the IASB could consider undertaking.
58. Some CMAC members identified a project on segment reporting as a priority, stating that more disaggregated information by segment, including cash flow by segment, is needed to understand businesses in the context of competition and changing industry trends. One CMAC member noted that IFRS 18 *Presentation and Disclosure in Financial Statements* defines operating profit and suggested the IASB should update IFRS 8 *Operating Segments* to require the disclosure of operating profit by segment. This CMAC member stated this could be an easily achievable improvement, while one GPF member stated that it would not necessarily be easy. The same CMAC member also raised concerns about the requirement for segment disclosures based on the management approach in IFRS 8.
59. Some GPF and CMAC members supported prioritising a project on hyperinflationary accounting. These members noted a project on this topic was requested in previous

agenda consultations and stated that such a project is of growing importance because more, and larger, economies are experiencing hyperinflation.

60. Some CMAC members supported prioritising a project on cryptoassets, stating that more companies are buying them, regulators are raising concerns and that there is a lack of comparability in the reporting on those assets. A CMAC member asked whether the IASB could address matters relating to cryptoassets together with the FASB.
61. Some CMAC members raised concerns about inadequate disclosures about related party relationships. They highlighted issues with circular ownership arrangements and emerging business relationships, such as investments in startup companies that become customers.
62. Some GPF and CMAC members supported a project on pollutant pricing mechanisms, stating that the prevalence of emissions trading schemes is increasing and more companies are actively involved in carbon markets.
63. A few CMAC members suggested that the IASB consider the adequacy of the requirements for going concern disclosures, stating that current economic conditions might increase the risk of corporate defaults.
64. A few GPF members emphasised the importance of focusing on achievable projects and maintaining sufficient capacity for unexpected urgent issues.
65. A few GPF and CMAC members stated that addressing projects identified through post-implementation reviews might not require as many resources as other projects.
66. A few CMAC members suggested reviewing the implementation of new IFRS Accounting Standards in cases in which there is diversity in interpretation of the requirements.

### **Next step**

67. The IASB will consider the feedback from CMAC and GPF members in developing a list of potential projects that the IASB could consider undertaking.