IFRS Accounting

# Meeting summary

## Capital Markets Advisory Committee

Date **19 October 2023**
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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 | Ge Xiaobo<br>Koei Otaki* |
| Europe | Deirdre O'Leary<br>Philip Robinson<br>Larissa van Deventer<br>Joao Toniato<br>Jeremy Stuber<br>Terence Fisher<br>Jacques de Greling*<br>Kenneth Lee<br>Oliver Gottlieb<br>Selim Gogus<br>Matthias Meitner* |
| The Americas | Enitan Adebonojo<br>Anthony Scilipoti*<br>Paulo Cezar Aragão*<br>Rosemary Zigrossi* |

*Remote participation via videoconference.

## Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*

1. The purpose of this session was to seek members' views on the matters raised in the Request for Information *Post-implementation Review of IFRS 15* Revenue from Contracts with Customers. The IASB staff asked CMAC members:

   (a) whether the disclosure requirements in IFRS 15 result in useful information;

   (b) whether companies provide sufficient disclosures and whether there is diversity in reporting on:

      (i) principal versus agent assessment;

      (ii) consideration payable to a customer;

      (iii) timing of revenue recognition;

      (iv) licensing arrangements; or

      (v) identifying performance obligations;

   (c) whether fair value adjustments to contract assets and contract liabilities applying IFRS 3 *Business Combinations* affect the usefulness of information.

### Disclosure requirements

2. A few members reported that generally, IFRS 15 has improved the usefulness of information companies disclose.

3. Many members highlighted the usefulness of disclosures about contract assets and contract liabilities because they help users of financial statements reconcile a company's cash flows and revenue. Some members also said that:

   (a) disclosures about contract balances are more closely scrutinised when a company's financial position starts deteriorating;

   (b) some users do not understand the concepts of 'contract assets' and 'contract liabilities'; and

   (c) users' analyses can be difficult because the terms used by companies and the quality of contract balance disclosures vary.

4. Some members said that disaggregated information about revenue (such as disaggregation by geography, type of goods or services and point in time as opposed to over time revenue recognition) is very important because it helps users of financial statements forecast separate revenue streams. A few members suggested the disclosures could be standardised to improve comparability among companies. Other suggestions included disaggregating revenue by client type and currency.

**Principal versus agent assessment**

5. A few members suggested companies should provide better disclosures on the nature of contracts and distinguish revenue earned as a principal from revenue earned as an agent to help users of financial statements better understand companies' business models and the relationships between the parties in a contract.

6. One member noted that there is diversity in accounting for excise taxes by tobacco companies—some companies present excise taxes gross as an expense, while others present them net as a deduction from revenue. However, such companies typically disclose enough information to enable users of financial statements to prepare valuation models.

**Consideration payable to a customer**

7. A few members noted that some companies show consideration payable to a customer as a reduction of revenue and some as a marketing expense, and disclosures are often insufficient for users of financial statements to compare margins across companies. Members had mixed views on how incentives offered to customers should be presented:

   (a) a few members suggested reducing revenue; and

   (b) a few other members argued that the presentation should depend on the company's judgement of whether the consideration is payable for a distinct good or service and on applying the definition of a customer.

**Timing of revenue recognition**

8. A few members suggested that companies often provide generic disclosures on the timing of revenue recognition, and that users of financial statements would benefit from:

(a) more detailed disclosures on contract terms; and

(b) better explanation of the split between point in time and over time revenue recognition, and any changes in related accounting policies because of business acquisition.

**Licensing arrangements**

9. A few members suggested that users of financial statements find it difficult to understand variations in accounting for licences and therefore find it difficult to compare companies. The members said that these difficulties arise from insufficient information provided by some companies about items such as contract terms, and because of subjectivity in identifying performance obligations in arrangements containing a licence and other goods or services.

10. One member commented that when an IT company is transitioning from an on-premises to a cloud-based business model (and so from a point in time to over time revenue recognition), users of financial statements rely on non-GAAP measures, which are closer to cash flows.

**Identifying performance obligations**

11. Members did not report any issues with information provided by companies in relation to identifying performance obligations, other than those related to licensing arrangements.

**Application of IFRS 15 with IFRS 3 *Business Combinations***

12. A few members said that companies disclose insufficient information about fair value adjustments on business combinations, including information about adjustments to contract assets and contract liabilities. They suggested a reconciliation of the pre-acquisition book value to the fair value on acquisition would help users model future cash flows.

13. Members provided mixed views on accounting for contract assets and contract liabilities on acquisition:

(a) a few members preferred the United States' FASB approach that requires acquirers to recognise contract assets and contract liabilities applying FASB Topic 606 Revenue from Contracts with Customers rather than measure them at fair value. According to these members, the FASB approach makes modelling cash flows easier by avoiding differences in accounting for revenue contracts initiated before and after acquisition.

(b) a few other members suggested retaining the fair value measurement principle on acquisition for all assets and liabilities. They said companies usually provide additional non-GAAP measures to help users understand the effects of a business combination, although this information is not audited.

**Other**

14. One member noted that after implementing IFRS 15, modelling of future working capital became more challenging because the discrepancy between invoicing and revenue recognition increased. This member also reported challenges with applying IFRS 15 alongside the sale and leaseback requirements for operating and finance leases.

## Next steps

15. The IASB will consider comments from CMAC members alongside other feedback on the Request for Information in assessing whether IFRS 15 is working as intended.

## Climate Related and Other Uncertainties in the Financial Statements Project

16. The IASB staff:

(a) provided an update on the project; and

(b) asked members for feedback on the direction of the project and whether and how disclosures about assumptions, judgements and estimates could be improved.

17. Most members generally supported the direction of the project and said that they would benefit from more detailed information about key assumptions, judgements and estimates used in preparing financial statements. Some members said that better information about what companies have considered in performing impairment testing is needed. However, some members also acknowledged that there might be challenges for preparers in deciding what information should be disclosed.

18. Some members said that it is sometimes unclear whether the assumptions used in preparing sustainability-related financial disclosures and financial statement disclosures are consistent. These members said that additional information to help users of financial statements connect these disclosures would be helpful.

## Next steps

19. The IASB will discuss possible actions on assumptions, judgements and estimates at a future meeting. When making decisions about these actions, the IASB will consider the feedback from members alongside other feedback from consultative activities.

## Equity Method Project

20. The IASB held this session to:

    (a) update members on the project;

    (b) present some of its tentative decisions on application questions to members; and

    (c) ask members if the disclosure requirements it tentatively decided to propose will improve information to users of financial statements.

### Disclosure: A reconciliation between the opening and closing carrying amount of an investor's investments in associates

21. All members that commented supported the IASB's tentative decision to require an investor to disclose a reconciliation between the opening and closing carrying amount of its investments in associates and agreed it would provide useful information to users of financial statements. Furthermore, the members said that the inclusion of:

    (a) the 'dividends received from an associate' line item in the reconciliation would be useful for users of financial statements performing independent valuations of the investment; and

(b) the ‘investor's share of the profit or loss of the associate’ line item in the reconciliation would provide useful information about investors that include the amount of the share as part of their management performance measures.

22. A few members suggested it would be useful to disclose the reconciliation of the carrying amount of investments in associates separately from the reconciliation of the carrying amount of investments in joint ventures, depending on materiality. The members said the separation would be useful because of varying risks, characteristics and availability of information between the two types of investments.

23. The IASB responded to questions from a few members who asked about the level of disaggregation that would be proposed for the disclosure requirement.

**Disclosure: Transactions with equity-accounted investments**

24. The IASB explained that it decided not to require an investor to disclose the gains or losses on transactions from its associates because the investor may not be able to access the information.

**Disclosure: Other changes in the associate’s net assets that change an investor’s ownership interest**

25. One member commented that, when an entity recognises a gain or loss from a change in its associate’s net assets that changes the entity’s ownership interest, that change is part of the change of the carrying amount of the investment. The entity could therefore disclose such information as part of the reconciliation between the opening and closing carrying amount of an investor’s investments in associates.

**Disclosure: Contingent consideration arrangements**

26. One member suggested that disclosing the contingent consideration arrangements assumed in a business combination separately from those assumed on obtaining significant influence in an associate would provide useful information to users of financial statements.

**Supplementary comments**

27. One member expressed concerns on the tentative decision that an investor purchasing an additional interest in an associate would recognise a gain from a bargain purchase in profit or loss. The member noted that the decision might result in manipulation of financial results if the purchase is part of a bundled transaction.

## Next steps

28. The IASB will discuss:

    (a) possible improvements to disclosure requirements for investments other than those in associates accounted for using the equity method; and

    (b) transition requirements for the proposals to amend IAS 28 *Investments in Associates and Joint Ventures*.