Summary note of the Accounting Standards Advisory Forum

Held on 1 April and 2 April 2019 at the IFRS Foundation office, Columbus Building, 7 Westferry Circus, Canary Wharf, London E14 4HD.

This note is prepared by staff of the International Accounting Standards Board (the Board), and summarises the discussion that took place with the Accounting Standards Advisory Forum (ASAF).[1] *A full recording of the meeting is available on the IFRS Foundation® website.*

Region	**Members**
Africa	Pan African Federation of Accountants (PAFA)
Asia-Oceania (including one at large)	Asian-Oceanian Standard-Setters Group (AOSSG) Accounting Standards Board of Japan (ASBJ) Accounting Regulatory Department, Ministry of Finance PRC (ARD) Korea Accounting Standards Board (KASB)
Europe (including one at large)	European Financial Reporting Advisory Group (EFRAG) Autorité des normes comptables (ANC) Financial Reporting Council, UK (FRC) Organismo Italiano di Contabilità (OIC)
The Americas	Group of Latin American Accounting Standard Setters (GLASS) Canadian Accounting Standards Board (AcSB) Financial Accounting Standards Board, US (FASB)

[1] IFRS®, IAS®, IFRS Foundation®, IASB®, IFRIC® and SIC® are trademarks of the IFRS Foundation in the UK and in other countries. Please contact the IFRS Foundation for details of where these trademarks are registered.

Accounting Treatment of Initial Coin Offerings and Tokens in France

1. The ANC member provided an overview of the accounting regulation for Initial Coin Offerings (ICOs) and tokens issued by the ANC in December 2018 (Agenda Paper 1). The regulation sets out a principle-based framework for issuers and holders of tokens. It does not address token platforms.

2. The accounting regulation requires an issuer to review any relevant documents (eg a white paper) to identify the commitments the issuer has made to the holder. An entity determines the accounting for issuing a token based on the commitments it has made when issuing that token. The commitments made by the issuer are required to be disclosed in the financial statements.

3. Applying the accounting regulation, the accounting for a holder of tokens depends on the intention of the holder. If the holder purchased the token for its own use the holder would recognise the token as an intangible asset (unless the token provides the holder with a right to receive goods from the issuer). If the holder purchased the token as an investment it would measure the token at fair value with decreases in value being recognised but increases in value being deferred until realised.

Application of IFRS Standards

4. Three ASAF members (AOSSG, AcSB and KASB) asked whether the accounting regulation would apply to entities applying IFRS Standards. If so, those members questioned whether such an entity would be able to assert that it had applied IFRS Standards as issued by the Board. Those members highlighted in particular holders that intend to hold the tokens for investment purposes.

5. The ANC member said that all entities that prepare financial statements in accordance with French GAAP would be required to apply the accounting regulation if they issue or hold tokens. A token is defined in French law.

6. Board members Sue Lloyd and Ann Tarca said the IFRS Interpretations Committee (Committee) had discussed similar transactions within the context of IFRS Standards. The Committee discussed the accounting by issuers in September 2018 and noted that the accounting depends on the commitments made by the issuer to the holder. Therefore, the conclusion in the ANC's accounting regulation appears similar to the Committee's conclusion about the application of IFRS Standards by issuers of tokens.

7. The Committee also recently published a tentative agenda decision that sets out how IFRS Standards apply to holdings of cryptocurrencies. In that tentative agenda decision, the Committee conclude that a holder applies IAS 2 *Inventories* if the cryptocurrency is held for sale in the ordinary course of business or otherwise IAS 38 *Intangible Assets*. This could result in differences in financial reports between entities that apply IFRS Standards and entities that apply French GAAP for holders of tokens.

Holders

8. The OIC member asked what was meant by 'investment'—does the accounting regulation address long-term investment or trading activity? The ANC member clarified that the accounting regulation addresses trading activity.

9. The AOSSG member asked why the accounting regulation treats increases in fair value differently from decreases. The FRC member said it seemed that the measurement requirements were closer to historical cost than fair value because of the asymmetric recognition of gains and losses. The ANC member said this follows the accounting treatment for similar items in French GAAP.

10. The ARD member said it may be difficult for a holder to determine the estimated useful life or the fair value of a token. The FASB member also noted that in the US there have been discussions about how to determine fair value for tokens, particularly when the market is not well developed and may be subject to manipulation.

Prevalence

11. A number of ASAF members provided information about the prevalence of similar transactions in their jurisdiction and any activities they are undertaking:

    (a) the KASB member said that issuing tokens is widespread among smaller, non-listed entities. The KASB has observed, however, that there are a number of trading houses in Korea that are in the process of being purchased by listed entities.

    (b) the AcSB member said the market for tokens is active in Canada. Both the Canadian securities regulator and the audit regulator are actively monitoring the market. The AcSB has not undertaken any standard-setting in this area.

It is monitoring developments and its IFRS Discussion Group has had discussions on various topics related to tokens.

(c) the GLASS member said in Brazil the regulator does not consider tokens to be within the scope of securities regulations.

(d) the FASB member said it is monitoring developments in the market. The FASB staff are trying to determine how much market activity is real economic activity. The American Institute of Certified Public Accountants is working on developing audit guidelines in relation to tokens and the US securities regulator is considering whether tokens are securities.

(e) the FRC member said there was not a huge demand for accounting guidance on tokens in the UK but expects any demand to come from unlisted entities that apply UK GAAP.

(f) the EFRAG member said EFRAG has started a research project—EFRAG staff are currently working on defining the problem. EFRAG expect to publish a discussion paper later this year.

(g) the AOSSG member said (i) in Malaysia the government is considering banning public entities from issuing tokens; (ii) in Sri Lanka there have been no tokens issued; and (iii) in Hong Kong and Australia the market is currently small.

(h) the ARD member said issuing tokens is banned in China. However, the G20 has been discussing the issue of tokens.

Legitimisation

12. The Board's Chairman, and the FRC, FASB and GLASS members, expressed concern about undertaking standard-setting in this area, which could be seen to legitimise the issue of tokens.

13. The ANC member said accounting requirements should follow transactions and that requirements bring transparency to the market, which may help to protect investors.

14. The AOSSG member also said the accounting question for holders of tokens is symptomatic of a wider question about intangible assets held for investment purposes that could be addressed by issuing an investments standard, which would not give legitimacy to one particular type of asset.

Management Commentary

15. The objective of this session was to receive the ASAF members' input on the staff's proposals included in Agenda Paper 2 on:

    (a) the interaction between management commentary and other reports;

    (b) providing information 'through the eyes of management' and the interplay with users' information needs and with the concept of neutrality;

    (c) forward-looking information in management commentary; and

    (d) information about tax in management commentary.

The interaction between management commentary and other reports

16. Most members agreed with the staff's proposed principles-based approach to cross-referencing from management commentary to financial statements and to other reports published by the entity (KASB, GLASS, EFRAG, PAFA, AcSB, FRC, FASB, ARD and OIC). However, a few members suggested cross-referencing from management commentary to reports other than financial statements should be restricted to filed regulatory reports (GLASS, PAFA and ANC) or to reports that are audited (OIC).

17. Members expressed mixed views on the effect of the proposals for cross-referencing on auditors:

    (a) two members said the proposals are not expected to lead to issues for auditors (KASB and GLASS), mainly because management commentaries are not audited in many jurisdictions.

    (b) the ARD member said there are concerns from auditors in her jurisdiction related to cross-referencing to financial statements because of possible implications for identifying the boundary of financial statements and the boundary of information subject to audit.

    (c) the AcSB member suggested that management commentary should specify the level of assurance provided on referenced information to help users understand the quality of that information. For example, in her jurisdiction if risk disclosures are provided in management commentary instead of the financial statements (as allowed by IFRS 7 *Financial Instruments:*

Disclosures), management commentary indicates that these disclosures form part of the audited financial statements.

18. The FRC member suggested including an explicit principle that management commentary can incorporate information by cross-referencing if that results in more effective communication of information or in avoiding duplication. The AcSB member emphasised that the use of cross-referencing should not reduce coherence of management commentary.

19. A few members noted that in their jurisdiction cross-referencing from management commentary to financial statements is easier than vice versa (AcSB and FASB). The AcSB member also suggested that the staff consider local regulations in developing its proposals on cross-referencing.

20. Some members explicitly agreed with the staff's proposed restrictions on providing cross-references (GLASS, PAFA, ARD and OIC). In particular, some members emphasised the importance of the proposed requirements that:

    (a) the referenced document is not temporary and should be available for as long as the management commentary is available (GLASS, PAFA and AcSB); and

    (b) the change of the referenced document is highlighted in management commentary either by updating it or by issuing a separate modification to the issued management commentary (GLASS, PAFA, AcSB and ANC).

21. The GLASS and FASB members suggested replacing the term 'restrictions' with 'conditions' or 'requirements' to avoid any negative connotations.

Providing information 'though the eyes of management' and the interplay with users' information needs and with the concept of neutrality

22. The AcSB member asked the meaning of the phrase 'through the eyes of management' be clarified, in particular whether it is used with the same meaning as in IFRS 8 *Operating Segments*. She suggested that the title of the report being 'management commentary' implies that it is prepared from management's point of view. The Board'sVice-Chair agreed that clarifying the intent behind the phrase 'though the eyes of management' would be helpful because it can be understood differently. In particular, it should not be misused by management to justify non-disclosure.

23. The FRC member agreed that there is no inherent conflict between developing management commentary 'through the eyes of management' and developing it to meet users' information needs. In addition, he suggested distinguishing the purpose of management commentary from the contents of management commentary because in the current proposals they seem to be conflated.

24. Further comments on the interplay between management's view and users' information needs were as follows:

    (a) the ANC member said that it is reasonable to expect management to be ambitious in management commentary. Users' information needs will nevertheless be met as long as management also explains the sensitivities, limitations and challenges to achieving their ambitions - in other words, as long as the management commentary provides a balanced view.

    (b) the GLASS member suggested that in cases when management is compensated based on metrics other than those included in market releases, it is particularly important to disclose this fact in management commentary.

    (c) the EFRAG member commented that management commentaries often focus on alternative performance measures, and in practice there are challenges in achieving neutrality in selecting and explaining those measures. The member noted that the European Securities and Markets Authority has issued guidance on this topic.

25. The GLASS member agreed that the proposed guidance for identifying information to be included in management commentary would be useful.

26. Those members who commented on neutrality agreed that information in management commentary must be balanced and that discussion of positive and negative developments must be given equal prominence (ASBJ, FRC, ANC, GLASS and AcSB). However, many of them suggested that this concept of neutrality described in the *Conceptual Framework* may not be universally understood (ASBJ, FRC, GLASS and AcSB). They therefore suggested explaining the concept of neutrality in terms of 'fair balance' and 'providing both positive and negative information' to help readers of the revised Practice Statement understand the intent behind the concept.

Forward-looking information in management commentary

27. Almost all ASAF members who commented on the topic (GLASS, AcSB, FRC, FASB and ARD) generally agreed with the staff's proposals to introduce the following requirements:

    (a) include in management commentary forecasts and targets if these have already been published elsewhere; and

    (b) compare those forecasts and targets with the entity's actual results.

28. The FRC member emphasised that subsequent comparison of the entity's actual results with forecasts and targets, including those published elsewhere, is particularly important. In addition, he suggested discussing provision of other types of 'forward-looking information', not just on 'forecasts'. The AcSB member agreed with a broader focus on forward-looking information but suggested specifying what is meant by forward-looking information as the term can be understood differently especially in different jurisdictions.

29. The EFRAG member expressed a view that instead of providing management's forecasts management commentary should provide information that is necessary for users to make their own predictions.

30. Other comments on this topic were as follows:

    (a) the GLASS member suggested clarifying which forecast should be compared with the actual results when forecasts are restated during the reporting period. He suggested comparing with the initial forecast or guidance. He also questioned how broad the requirement for comparison should be and whether it should capture, for example, a comparison with targets discussed by a CEO in a published interview.

    (b) the ASBJ member suggested clarifying how much information should be included in management commentary if an entity publishes very detailed forecasts elsewhere.

    (c) the ARD member stated that some stakeholders expressed concerns about increased risk of financial reporting fraud because management may find themselves under pressure to meet previously published forward-looking information.

(d) a Board member commented that users need forward-looking information related to medium and long term, rather than short-term guidance such as next year's earnings per share.

Information about tax in management commentary

31. Four members (ASBJ, FRC, EFRAG and ANC) questioned why the revised Practice Statement should single out providing information about tax. However, the FRC member also pointed out that information about tax is often material in which case he would support the staff's proposed guidance on providing information about tax in management commentary. He and the ANC member emphasised that the guidance should be focused on meeting users' information needs, not on providing public policy type disclosures. The ASBJ and ANC members suggested that, if material, information about tax should be provided in financial statements or as part of risk disclosures.

32. Two members (GLASS and FASB) agreed that providing information about sustainability of an entity's effective tax rate is important.

33. Suggestions on information about tax to be included in management commentary were as follows:

    (a) an explanation of the difference between the effective and nominal tax rate in the current period and discussion of micro and macro factors that can affect tax rate in the future (GLASS);

    (b) a comprehensive discussion of factors resulting from changes in management plans, such as a decision to invest less in research and development or a decision to take an uncertain tax position, as well as of external factors that can affect future tax (FASB);

    (c) a description of management's tax strategy (ANC); and

    (d) a discussion of tax incentives, tax exemptions and overall tax system changes (KASB).

34. The GLASS member cautioned that a generic requirement to provide information about known or expected factors that could affect future tax rate could lead to boilerplate disclosures because it is difficult for management to make such predictions.

35. The KASB member suggested that information about tax in management commentary should not be limited to income tax, but should cover all changes in regulatory environment, for example, changes in customs rules.

36. The ARD member disagreed that management commentary should provide information about tax because stakeholders in China already receive enough information based on IAS 12 *Income Taxes*.

IFRS 17 *Insurance Contracts*

37. The objective of this session was to ask ASAF members' views on the Board's tentative decisions on possible amendments to IFRS 17 *Insurance Contracts*. The staff presented Agenda Paper 3 and provided an update about the tentative decisions the Board made at its March 2019 meeting.

Loans that transfer insurance risk

38. Three ASAF members (AcSB, FRC and KASB) welcomed the Board's tentative decision to propose an amendment to IFRS 17 that would permit an entity to apply either IFRS 17 or IFRS 9 to insurance contracts that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract.

Acquisition cash flows for renewals

39. The AcSB member mentioned that stakeholders in her jurisdictions generally support the Board's tentative decision to propose an amendment to IFRS 17 so that an entity would allocate part of the insurance acquisition cash flows to expected contract renewals, recognise those cash flows as an asset until the contract renewals are recognised and assess the recoverability of the asset each period. However, she expressed concerns about the proposed level of disclosures related to such amendment.

40. The ARD member noted that deferring acquisition cash flows for renewals is not common in her jurisdiction and expressed concerns that the proposed amendment could be used inappropriately in practice. She suggested the Board limit the allocation of part of the insurance acquisition cash flows to expected contract renewals that are highly probable.

Profit allocation for some contracts

41. Two ASAF members (AOSSG and FRC) mentioned that insurers operating in their jurisdictions expressed mixed views about the Board's tentative decision to propose an amendment to IFRS 17 so that, for insurance contracts to which the general model applies, an entity would recognise the contractual service margin in profit or loss considering both insurance coverage and any investment-return service. Some of those insurers welcomed the Board's tentative decision that an entity should use judgement in deciding whether to include an investment-return service when determining coverage units. Other insurers expressed concerns that the proposed amendment might disrupt the implementation processes already under way or might not enable entities to reflect investment-return service in the determination of coverage units of insurance contracts that include small or no investment components.

42. The AcSB member mentioned that stakeholders in her jurisdictions support the recognition of the contractual service margin as an entity provides services, including any investment-return service. Those stakeholders will assess how to properly apply the proposed amendment once the wording of the proposed amendment is available in the forthcoming Exposure Draft.

Risk mitigation option

43. The FRC member supported the Board's tentative decision to propose an amendment to IFRS 17 to extend the applicability of the risk mitigation option when an entity uses reinsurance contracts held to mitigate financial risks. He recommended the Board clearly explains the rationale for limiting the applicability of the risk mitigation option to derivatives and reinsurance contracts held for contracts to which the variable fee approach applies.

Balance sheet presentation

44. The ANC member supported the Board's tentative decision to propose an amendment to IFRS 17 so that an entity would be required to present insurance contracts at portfolio level rather than at group level. However, even though he expressed his agreement with the core requirements in IFRS 17 that measure insurance contracts as a bundle of rights and obligations, rather than as separate assets and liabilities, he disagreed on the presentation requirements that an entity to present those rights and

obligations as a single amount, rather than as separate assets (for example, premiums receivables) and liabilities (for example, claims payable).

Transition

45. Some ASAF members (AcSB, ANC, AOSSG, ARD, FRC) noted that it would be helpful to stakeholders if the Board were to explain in the Basis for Conclusions on IFRS 17 that the existence of specified modifications in the modified retrospective approach does not prohibit an entity from:

    (a) making estimates that are necessary in retrospectively applying an accounting policy as described in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; or

    (b) similarly, making estimates when applying a specified modification in the modified retrospective approach.

Level of aggregation

46. Three ASAF members (ANC, ASBJ and OCI) mentioned that stakeholders in their jurisdictions are still concerned about the implementation challenges of the level of aggregation requirements in IFRS 17 that the Board has decided to retain unchanged. The AcSB member noted that stakeholders in her jurisdictions have no particular concerns about those requirements.

Onerous Contracts—Cost of Fulfilling a Contract (Proposed Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*)

47. The objective of this discussion was to obtain ASAF members' preliminary views on the Board's proposals in Exposure Draft *Onerous Contracts—Cost of Fulfilling a Contract* (Agenda Paper 4).

48. Five ASAF members (FRC, ARD, PAFA, EFRAG and AOSSG) indicated general support for the Board's proposals.

49. Some ASAF members suggested that the Board consider widening the scope of the project to address other aspects of the onerous contract requirements:

    (a) measurement—FRC, GLASS and AOSSG members suggested that the amendments address how an entity would measure an onerous contract liability. In particular, they questioned whether an entity would include the same costs when measuring an onerous contract liability as it would in identifying that the contract is onerous.

(b) economic benefits—ASBJ, PAFA and AOSSG members suggested that the Board consider the term ‘economic benefits’ in the definition of an onerous contract.

(c) unit of account—the ASBJ member suggested the Board clarify what IAS 37 means by ‘contract’.

(d) impairment—the EFRAG member suggested that the Board consider clarifying whether an entity is required to allocate depreciation or amortisation costs to a contract before or after the related asset has been considered for impairment.

50. The PAFA, KASB and EFRAG members suggested that the Board consider the effects of the proposal on contracts other than those previous within the scope of IAS 11 *Construction Contracts*. The KASB member said that the Exposure Draft may have a significant and costly effect on some manufacturing entities.

51. The AOSSG and AcSB members suggested that the Board clarify what costs are directly related to the contract. The FRC member suggest the Board consider management accounting concepts to clarify what costs an entity would include applying the proposals.

52. The AcSB member noted that it would send a comment letter but, in discussion, some of its Board members had a preference to permit retrospective application of the proposed amendments.

Accounting Policy Changes (Proposed Amendments to IAS 8)

53. The purpose of the session was to obtain ASAF members’ views on the best way to proceed—considering feedback in comment letters—specifically on the Board’s proposal to introduce a new cost-benefit threshold for accounting policy changes that result from an agenda decision (Agenda Paper 5).

54. The staff paper set out two possible approaches:

(a) the *modified ED* approach—the Board proceed with finalising the proposed amendments to IAS 8, subject to extending the scope of the proposed cost-benefit threshold so that an entity could apply it to all voluntary accounting policy changes.

(b) the *do not proceed* approach—the Board not proceed with the proposed amendments.

Project direction

55. Two members (the GLASS and FRC representatives) suggested proceeding with the modified ED approach for the reasons outlined in the staff paper. The FRC representative saw no reason to limit the application of the cost-benefit threshold to only accounting policy changes resulting from an agenda decision.

56. The EFRAG representative said views were mixed in its jurisdiction between the two approaches. The AOSSG representative said two AOSSG members (India and Hong Kong) suggested not proceeding with the amendments and one AOSSG member (Australia) said the Board should not expand the scope of the proposals to include all voluntary accounting policy changes. Five other ASAF members (representatives from ARD, ASBJ, AcSB, OIC and KASB) suggested that the Board not proceed with the amendments.

57. ASAF members who suggested that the Board not proceed with the amendments did so because, in their view:

(a) applying and auditing the cost-benefit threshold, and in particular determining the expected benefits for users of financial statements, would be difficult (AOSSG and ARD);

(b) entities could use the amendments as a reason not to apply an accounting policy change retrospectively, which would have a negative effect on the overall quality of financial reporting (ARD);

(c) the amendments could reduce comparability between entities by resulting in more frequent voluntary accounting policy changes (AOSSG); and

(d) the existing requirements in IAS 8 are sufficient (ASBJ, OIC, KASB, AOSSG).

Other comments

58. Some respondents also made other comments on the proposed amendments as follows:

    (a) the GLASS representative said (a) the assessment of cost and benefits is different from the assessment of materiality, and (b) entities should disclose the effect of an accounting policy change even if they do not restate comparative information;

    (b) the AOSSG representative said one of its members (Hong Kong) suggested requiring entities to apply accounting policy changes prospectively with an option to apply any change retrospectively;

    (c) the ASBJ representative reiterated the ASBJ's view that the Board should undertake standard-setting when diverse reporting methods exist in practice; and

    (d) the FASB representative said the Committee is better placed than individual entities to assess the expected benefits for users of financial statements. Accordingly, the Committee could consider providing direction regarding the expected benefits in each agenda decision.

Provisions

59. The objective of this session was to obtain ASAF members' advice on:

    (a) whether the Board should undertake a project to make targeted improvements to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and

    (b) if so, what the scope of the project should be.

Aligning liability definition with the *Conceptual Framework*

60. Most ASAF members (FRC, EFRAG, ASBJ, FASB, PAFA, KASB, OIC, AcSB, ARD and AOSSG) expressed support for aligning the liability definition and supporting guidance in IAS 37 with the *Conceptual Framework*. The ASBJ and AcSB members expressed particular support for amendments that would result in the Board withdrawing IFRIC 21 *Levies*.

61. The FRC, EFRAG and FASB members cautioned that aligning IAS 37 with the *Conceptual Framework* was unlikely to be straightforward and should not be viewed as a narrow-scope project. In particular, applying the 'no practical ability to avoid' concept to the broad range of transactions covered by IAS 37 could require substantial thought.

62. The EFRAG member noted the Board had previously suggested that one outcome of its project on Financial Instruments with Characteristics of Equity could be further amendments to the liability definition in the *Conceptual Framework*. She suggested that, if the Board still regards this outcome as possible, it should not amend IAS 37 in the meantime.

Clarifying which costs to include

63. The FRC, FASB, OIC, ARD and AOSSG members expressed support for clarifying which costs to include in the measure of a provision. The AOSSG and ARD members suggested that if the Board clarifies which *costs* to include in the measure of a provision for onerous contracts, it should also clarify which *economic benefits* to include. The FASB and ANC members suggested that deciding which economic benefits to include can be an issue for entities that enter into a loss-making contract (for example, to sell a vehicle) in the expectation that the contract will lead to future profitable contracts (for example, to maintain the vehicle).

Clarifying whether discount rate should reflect own credit risk

64. The FRC, FASB, KASB, AcSB, ARD and AOSSG members expressed support for clarifying whether rates used to discount provisions should reflect the entity's own credit risk. However, the FRC, FASB, KASB and AcSB members suggested this issue should not be addressed in isolation—it should be considered as part of a broader review of the requirements for risk adjustments (as described in section B1 of Agenda Paper 6).

65. The PAFA member suggested requiring entities to disclose information about how they selected discount rates used. He thought such information could be particularly useful in jurisdictions without deep financial markets, where there may be greater diversity in practice.

Other topics

66. ASAF members suggested including other topics within the scope of the project. Suggestions included:

    (a) undertaking a more comprehensive review of IAS 37, exploring all the topics discussed in the staff paper, if resources allow (OIC).

    (b) specifying the measurement objective more precisely, as discussed in section C2 of the Agenda Paper—a more precise measurement objective would provide a clearer basis for decisions on which costs to include, whether and how to reflect risk etc (FRC).

    (c) adding a requirement to disclose information about the assumptions used in measuring the 'best estimate' of a provision. Although IAS 1 *Presentation of Financial Statements* requires disclosure of assumptions made and other sources of estimation uncertainty, this requirement is not always applied rigorously (AOSSG).

    (d) clarifying whether the measure of a provision should take into account the probability of no outflow being required (KASB).

    (e) reviewing the requirements for reimbursement rights to ensure they are consistent with those in IAS 16 *Property, Plant and Equipment* (KASB).

    (f) aligning the recognition thresholds for contingent assets and contingent liabilities, on the grounds that the existence of a higher threshold for contingent assets than for contingent liabilities contradicts the concept of neutrality (KASB).

67. The ARD member cautioned against making the requirements for reimbursement rights less prudent or removing the requirement to adjust provisions for risk.

68. The ASBJ member noted that the ASBJ would not support any change in the recognition criteria for provisions.

Subsidiaries that are SMEs

69. The Board is assessing whether it is feasible to develop a Standard, currently expected to be part of IFRS Standards, that would permit subsidiaries that are eligible to apply the *IFRS for SMEs* Standard to apply, in their individual entity financial statements, the recognition and measurement requirements of IFRS Standards but with the disclosure requirements of the *IFRS for SMEs* Standard (probably with some tailoring by the Board to reflect the recognition and measurement differences).

70. The objective of this session was to obtain ASAF members' views on the likelihood of a Standard, should the Board proceed with the project, being adopted in jurisdictions (Agenda Paper 9).

71. ASAF members noted three jurisdictions (Australia, New Zealand and the UK) have issued a Standard permitting reduced disclosures while applying the recognition and measurement requirements of IFRS Standards.

72. The AOSSG member noted that Malaysia proposed such a Standard but did not finalise it. Feedback to the exposure draft issued by the Malaysian Accounting Standards Board revealed that Regulators would not support the new Standard.

73. In relation to whether ASAF members would permit use of such a Standard:

    (a) the EFRAG member expressed support and the AOSSG said two of its members (Pakistan and Hong Kong) had expressed support. The EFRAG member commented that the standard-setters in the jurisdictions allowing or requiring IFRS Standards, strongly support the development of the Standard.

    (b) three other jurisdictions (AScB, Australia (an AOSSG member) and PAFA) were supportive but also indicated that they may consider a wider scope than subsidiaries that are SMEs.

    (c) the FRC member said the UK would be interested but for the fact that it already has a successful, and widely used, reduced disclosure Standard (with recognition and measurement of IFRS Standards) which applies to the single entity financial statements of members of a group.

    (d) the AOSSG member noted that New Zealand already has a Standard so would need to look at the differences before deciding whether to adopt.

(e) some ASAF members said they would not adopt the Standard because they either do not have a requirement for single entity financial statements or they do not require IFRS Standards at the single entity level (GLASS, ASBJ and AOSSG (Indonesia)).

(f) the ARD member noted that it requires parent and subsidiary companies in the same group to follow the same accounting policies and so if a parent applies IFRS Standards then the subsidiaries have to also.

(g) the AOSSG member noted that Korea and India also did not believe the Standard was appropriate.

74. Other comments:

(a) some jurisdictions queried which framework the reduced disclosure Standard would be part of; EFRAG would prefer that it is part of IFRS Standards.

(b) the FRC thought that there are not the same benefits of international comparability for subsidiaries as there is at the group level.

(c) the ARD member queried whether the benefits of giving fewer disclosure in individual financial statements would be reduced if the disclosures are required at the consolidated level.

(d) the KASB member was of the view that if subsidiaries prepare reduced disclosures, the auditors of the parent company might not consider that sufficient work had been done in the audit of the subsidiary financial statements which would lead to further work having to be done for the purpose of auditing consolidated financial statements.

(e) the AOSSG member noted that India believes that the Standard would provide an incomplete picture of financial statements as detailed disclosure sometimes assists stakeholders in better understanding recognition and measurement. There will be a mismatch between the underlying principles of the two sets of Standards with the classification and measurement of financial instruments being used as an example.

Application of IFRS Practice Statement 2: *Making Materiality Judgements* to reporting climate related and other emerging risk issues on financial statements

75. The Australian Accounting Standards Board (AASB) presented the AASB's December 2018 guidance *Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB Practice Statement 2* (Agenda Paper 7). The objective of this session was to obtain ASAF members' advice on:

    (a) whether the guidance is useful; and

    (b) any similar recent developments in ASAF member jurisdictions.

76. Many ASAF members expressed concerns about the guidance. In particular:

    (a) the FASB, ANC, ASBJ, ARD, FRC and GLASS members were concerned about how an entity would be able to isolate and determine the effect of climate change on the financial statements and how this could be audited;

    (b) the FRC, ASBJ and AcSB members were concerned that the guidance may:

        (i) encourage boilerplate disclosure about climate-related and other emerging risks; and

        (ii) result in increased disclosure about risks that may not reasonably be expected to influence the decisions that investors make;

    (c) the ANC member thought there should be further clarity about:

        (i) whether the guidance refers to the current or future effects of climate-related or other emerging risks; and

        (ii) what qualitative factors an entity should consider when assessing whether investors can reasonably expect climate related or other emerging risks to have a significant impact on the entity; and

    (d) the AOSSG member noted that IFRS Practice Statement 2 is not mandatory and therefore the guidance should instead emphasise the definition of material and paragraph 31 of IAS 1 *Presentation of Financial Statements*.

77. Three members (FRC, AcSB and OIC) agreed that entities should disclose information about climate-related and other emerging risks, however they think this

disclosure should be in the management commentary instead of in the financial statements.

78. A Board member stated there may be circumstances where climate-related and other emerging risks disclosures will be needed in financial statements, even when those risks have not led to the recognition of material amounts in the primary financial statements.

79. Two members (ARD and EFRAG) noted that their jurisdictions have, or are working on, their own guidance on climate change reporting.

80. The FRC member noted that when climate-related and other emerging risks affect the financial statements, better disclosure around significant judgements and estimates is needed.

81. The AASB representative noted that the financial statement disclosures suggested are the key assumptions actually made, not the generic risk disclosures and they will update the guidance to make this clearer.

Improving the impairment testing model in IAS 36 *Impairment of Assets*

82. A representative of the AASB presented the AASB Research Report 9 Perspectives on IAS 36: *A case for standard setting activity* (Agenda Paper 13). The objective of the session was for the AASB to share the results of their research and seek feedback from other ASAF members. The AASB highlighted that regulators of several countries have noted impairment is a major contributor to financial surveillance restatements and audit quality inspection findings.

83. The majority of ASAF members (EFRAG, OIC, PAFA, GLASS, ANC, ASBJ and AcSB) did not support a fundamental review of IAS 36. Members' opinions on the various topics covered by AASB's paper, as follows:

    (a) the FRC member agreed with the recommendation in the research paper that the Board should clarify the purpose of impairment test, and not focus only on goodwill when looking at the impairment test. In this member's view, the purpose of the impairment test is to ensure that the carrying amounts of individual assets are not overstated. He believes that the notion of a cash-generating unit (CGU) is used only when the recoverable amount of individual assets cannot be determined in isolation.

(b) the EFRAG member did not think there was a need to clarify the purpose of the test.

(c) the ASBJ member added that if IAS 36 was revisited, this would require the Board to reconsider depreciation and amortisation in general and the scope of such a project would be too broad.

84. A Board member expressed an alternative view that in his mind the purpose of impairment testing is to assess the value of the business as a whole, as once the assets have been combined the value of each underlying asset in isolation is of limited interest.

85. The OIC, FRC, EFRAG, PAFA, ANC, KASB and AcSB members further commented that the issues experienced in practice relate primarily to implementation, rather than the principles, of the Standard. Specifically:

(a) the OIC member highlighted that management optimism is an important factor contributing to limiting the effectiveness of impairment tests.

(b) the FRC member said that the focus of the project should be not on changing the purpose of the test but on ensuring the test is properly implemented in a way that meets its current purpose.

(c) the EFRAG member noted that there were mixed views among its members on whether additional guidance would be helpful. Some EFRAG members are concerned that providing additional guidance may limit the use of management judgement in performing impairment tests. Other EFRAG members would like the Board to provide more implementation guidance in the following areas:

(i) measurement of terminal value;

(ii) identification of CGUs; and

(iii) allocation of goodwill to CGUs.

(d) the PAFA member commented that if the principles of IAS 36 are applied, you should get the right answer.

(e) the ANC member commented that IAS 36 is difficult to apply and there is a lack of flexibility when CGUs are changed.

(f) the AcSB member noted that nothing in IAS 36 would prevent a preparer from implementing a robust impairment test. She believes that the Board should communicate the intent of IAS 36 with its stakeholders and maybe provide some best practice guidance.

(g) the KASB member commented that entities are often ignoring the requirement in IAS 36 to allocate goodwill to lower levels where possible. He believes that in practice entities are testing for goodwill impairment at the segment level, thus contributing to the shielding effect, and that this should be explored further.

86. The OIC, FRC, EFRAG, PAFA, ANC and AcSB members agreed with some of the detailed proposals in the report, noting that targeted changes to certain aspects of IAS 36 are needed. Specifically:

(a) the OIC, FRC, EFRAG, PAFA, ANC and AcSB members commented that the Board should revisit the requirements on tax inputs used in the value in use (VIU) calculations. The FRC and ANC members also agreed with the recommendation to clarify which tax attribute should be included in the VIU calculations. The AASB representative noted that just changing the disclosure requirements for pre or post tax rates would not resolve the underlying issues of incorporating tax into the impairment testing.

(b) the EFRAG and FRC members supported the inclusion of restructuring cashflows in calculation of recoverable amount, whereas the OIC did not support this proposal since it would introduce more judgment. The FRC member cautioned that restrictions ought to be placed on the inclusion of such cash flows to avoid abuse.

(c) the OIC, FRC and PAFA members commented that there is a need to improve the definition and identification of CGUs. The FRC member suggested that the objective of such improvement should be to identify CGUs at a level that is as disaggregated as possible.

(d) the OIC member thought disclosure on subsequent performance would be useful for users, although after a period of time it will be difficult to identify what element of performance arises from the acquired business.

(e) the FRC member thought the need for fair value less costs of disposal (FVLCD) could be removed. On the other hand, the EFRAG member commented that many respondents to the EFRAG discussion paper did not agree with a single model.

87. A member of the technical staff commented on a suggestion in the report that the identification of CGUs is an arbitrary exercise, not connected to the purpose of the impairment test, or the methodologies used in assessing impairment. The report suggests linking instead to the level at which an entity's results are viewed and decisions are made internally. He queried whether testing at that level would be connected any more clearly to the purpose of the impairment test, which is carried out at a CGU level only when independent cash flows arise at that level. The AASB representative noted that using management's views on the level at which the decision to retain or keep an asset, is more consistent with the value in use methodology.

88. Other comments made by members are as follows:

(a) the ARD member commented that the impairment approach should be simplified and she reiterated the importance of the project for the Chinese capital market.

(b) the GLASS member commented that recent corporate events have demonstrated there is information value in impairment tests. He noted that although the market captures the effects of impairment before it is recognised, the market does not capture all. This is evidenced by market reactions to recent announcements of impairments by entities in his jurisdiction.

(c) an AOSSG member commented that the existing impairment approach does not take account of the fact that goodwill diminishes over time and is replaced by internally generated goodwill. That member of AOSSG supports the reconsideration of amortisation of goodwill.

89. In response to the discussion, the AASB representative noted that members have highlighted numerous areas for potential improvement and that may suggest that a

fundamental review of IAS 36 is needed. She believes that making small changes within the existing Standard may not result in a cohesive Standard that makes sense when all the pieces are taken together.

Business Combinations under Common Control (BCUCC)

90. The objective of this session was to seek ASAF members' views on the accounting approach to business combination under common control between entities that are wholly owned by the controlling party, including transactions undertaken in preparation for an initial public offering (IPO) and those that affect lenders and other creditors in the receiving entity (Agenda Paper 8).

91. All ASAF members who commented on the topics generally agreed with the use of a form of predecessor approach for transactions between wholly owned entities. However:

    (a) three ASAF members (FRC, AcSB and GLASS) emphasised that it is important to specify how a predecessor approach is used. FRC suggested that a predecessor approach would provide useful information in an IPO scenario only if it provides historical information for all combining entities. FRC further suggested that providing historical information that can be used for valuation purposes in an IPO is more useful than applying a current value approach to the transaction itself. KASB suggested that the staff should consider the mechanics of the pooling of interest method in IAS 22 *Business Combinations* that preceded IFRS 3 *Business Combinations*.

    (b) three ASAF members (AOSSG, FASB, GLASS) suggested it was not clear why information needs of existing non-controlling shareholders (NCI) and of potential equity investors in an IPO are different. Two ASAF members (AOSSG, FRC) suggested that the staff perform further analysis of information needs of potential equity investors in an IPO. AOSSG stated that some of their members reached out to equity investors and found that they consider fair value information could also be useful in IPO circumstances as fair value information provide information about the future prospects of listing businesses.

(c) two ASAF members (ASBJ, KASB) suggested using a single accounting approach for all transactions within the scope of the project, rather than selecting different approaches depending on the information needs and composition of the primary users of the receiving entity's financial statements at the time of the transaction. The approach should be one that satisfies common information needs of all those primary users.

92. All ASAF members who commented on the topic:

(a) agreed with the staff conclusion in Agenda Paper 8B *Lenders and other creditors in BCUCC* that the result of analysis by debt investors and credit analysts of an entity's ability to service and raise debt would not depend greatly on whether a current value approach or a predecessor approach is applied to account for a business combination under common control; and

(b) supported using a form of predecessor approach for transactions between wholly owned entities that affect lenders and other creditors of the receiving entity.

93. Most ASAF members who commented on the topic (AcSB, EFRAG, FASB, FRC, GLASS, OIC) generally supported the staff's conclusion in Agenda Paper 8B that the Board could pursue different approaches for business combinations under common control that affect non-controlling shareholders (NCI) in the receiving entity and those that affect lenders and other creditors in the receiving entity. AOSSG stated that most of their members also agreed with that conclusion.

94. A few ASAF members (FASB, AcSB, ARD, ASBJ, KASB) commented as follows on accounting for transactions that affect NCI:

(a) two ASAF members (FASB, AcSB) supported the staff's view that a current value approach should be applied in some but not all NCI scenarios. FASB suggested that the larger the NCI, the closer the substance of the transaction to a business combination within the scope of IFRS 3. AcSB suggested further discussion is needed about when NCI is 'substantive' and thus should result in applying a current value approach to the transaction.

(b) in contrast, three ASAF members (ARD, ASBJ, KASB) suggested that a form of predecessor approach should be applied to all transactions within the scope of the project, including all transactions that affect NCI in the receiving entity. KASB suggested that identifying an acquirer could be challenging in a transaction under common control. ARD disagreed with applying a current value approach to any transactions within the scope of the project because in their view:

(i) a form of predecessor approach would better reflect the substance of all transactions within the scope of the project which ARD views as reorganisations;

(ii) a current value approach would involve significant measurement uncertainty and would involve recognition of goodwill which could be challenging to test for impairment; and

(iii) applying more than one accounting approach to transactions within the scope of the project would decrease comparability and create structuring opportunities.

Targeted Standards-level Review of Disclosures

95. The purpose of this session was to seek ASAF members' views on potential disclosure requirements identified by users of financial statements during outreach relating to IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurement*.

96. ASAF members provided feedback on whether the items of information identified in outreach with users during November 2018 – March 2019 (see Agenda Paper 11A) would:

(a) be costly to prepare;

(b) be costly to audit;

(c) have consequences for regulators; and

(d) have any expected benefits to stakeholders other than users.

97. ASAF members provided the following general comments:

(a) some ASAF members (ASBJ, FRC, AcSB, EFRAG and FASB) expressed concerns about the staff's approach to consulting stakeholders other than users. They recommended that the staff first seek feedback on users' identified disclosure objectives and then seek feedback on users' identified items of information to meet those objectives. Furthermore, these members suggested that the Board subsequently discuss the feedback in that same order.

(b) the ASBJ and EFRAG members said the staff should perform an assessment of the existing disclosure requirements in IAS 19 and IFRS 13 as part of the approach being explored by the Board.

(c) the FASB member suggested the Board consider developing a refined approach to considering the costs and benefits of different items of information. This member added that the Board should aim to consider the relative priority of each item of information identified by users in developing disclosure objectives and requirements.

IAS 19 *Employee Benefits*

98. Further to the comments raised by ASAF members in paragraph 97(a) above, the FRC member expressed surprise at the granularity of the feedback from users. He identified three high level themes in the feedback—noting that users want to understand:

(a) current financial position and balance sheet impact;

(b) how the plan will develop over time, enabling users to make predictions; and

(c) cash flows.

99. Some ASAF members (FRC, AcSB, EFRAG, FASB, KASB) provided comments on disclosing a sensitivity analysis that shows the effect on the pension obligation of changing multiple principal assumptions simultaneously:

(a) the FRC, AcSB and KASB members said this disclosure would be costly, requiring system changes and greater reliance on actuaries.

(b) the EFRAG member said that IAS 1 *Presentation of Financial Statements* already covers this. Consequently, this member questioned why a specific disclosure requirement would be needed in IAS 19.

(c) the FASB member cautioned against being too specific, particularly if this disclosure is intended to support the objective of understanding how the entity manages the risks associated with its pension plans. This member added that entities might not view risk management from a sensitivity analysis perspective.

100. Some ASAF members (FRC, EFRAG, FASB, KASB) provided comments on information about the expected *contributions into* the defined benefit plan:

(a) the FRC member agreed that this disclosure would provide useful information to users. He added that, in his view, this information is missing in IAS 19 requirements.

(b) the EFRAG and FASB members questioned the extent to which forward-looking information such as this should be disclosed in the financial statements. The FASB member added that providing such disclosure based on minimum contributions to meet a statutory requirement would be *less* forward-looking than disclosures based on internal budgets.

(c) the KASB member said their constituents expressed concerns that this disclosure might be burdensome for preparers.

101. The FASB member said that information about the nature and characteristics of the pension plan will often be boilerplate and add to voluminous disclosures. The member expressed doubts over the benefit of this relative to other identified items of information, but added that this disclosure is unlikely to be too costly to prepare.

102. The FRC member said requests for more disaggregation than is provided today would be costly to prepare and potentially complex for users to understand. This related to the disaggregation of amounts recognised in the financial statements and disclosure of the fair value of plan assets disaggregated by asset types.

103. The AcSB member provided the views of constituents in her jurisdiction:

(a) auditors expressed mixed views about disclosure of assumptions used in deriving the pension obligation, sensitivity analysis and explanation of the differences between various pension plan valuations. A few of these auditors supported the provision of these items of information, adding that they would be useful in assessing the appropriateness of the entity’s pension valuation. A few other constituents said that, in their view, IAS 1 already requires some of this information to be provided. Those constituents suggested that including specific requirements in IAS 19 could lead to confusion.

(b) regulators expressed concerns that the pension disclosures in financial statements are often lengthy with not enough relevant information. Those regulators expressed support for a project to improve the disclosure requirements in IAS 19. In particular, they support better disaggregation of pension information and suggest that information to help users better understand the entity's plan for financing the net pension liability should be required.

IFRS 13 *Fair Value Measurement*

104. ASAF members provided fewer specific comments on IFRS 13 than IAS 19.

105. The FASB member said that a request for additional disclosures for Level 2 fair value measurements, similar to those typically provided for Level 3 today, also arose in their jurisdiction. The member acknowledged that they received this feedback because stakeholders often questioned whether preparers are making appropriate judgement with regard to the boundary between Level 2 and Level 3 measurements. However, the FASB heard that such additional disclosures for Level 2 would be extremely costly to prepare.

IFRS Foundation— Due Process Handbook Review

106. The staff presented a preview of the amendments to be proposed to the Due Process Handbook (Handbook). The main amendments to be proposed, relate to effects analysis and agenda decisions. The staff sought ASAF members' advice on which stakeholder groups to focus their outreach.

107. The FASB member commented that outreach should target regulators given some of the amendments to be proposed relate to agenda decisions. The EFRAG member agreed with the suggestion to focus on outreach with regulators and also added the importance of engaging with auditors who will provide a valuable perspective on the amendments to be proposed which relate to agenda decisions. Other members suggested engaging with preparers given their growing interest in the importance of agenda decisions and the FRC member suggested speaking to users of financial statements.

108. The AOSSG, ANC and ASBJ members all raised points relating to the status and the timing of agenda decisions. The AOSSG member highlighted that agenda decisions change behaviour in practice.

109. A Board member responded that the amendments to be proposed to the Handbook more clearly articulate the status of agenda decisions. The amendments to be proposed will state that whilst agenda decisions do not add or change requirements in IFRS Standards they are helpful, informative and persuasive. The staff also highlighted that the amendments to be proposed to the Handbook reflect the Board's view that entities should be given sufficient time to implement any accounting change as a result of an agenda decision.

110. The KASB member said they would prefer that explanatory material in an agenda decision include reference to any additional issues that arise during discussion at the IFRS Interpretations Committee rather than only respond to the original stakeholder submission.

111. The EFRAG member highlighted that when conducting outreach it would be useful to include an example of a proposed Board agenda decisions and provide a scenario from the past when a Board agenda decision could have been helpful. The FRC stated they are supportive of the amendments to propose Board agenda decisions, as long as they will be well communicated and easily accessible for stakeholders.

112. The EFRAG member and FRC members acknowledged their support for the amendments to be proposed to the Handbook relating to the enhanced focus on effects analysis. The ARD member highlighted the importance of due process and suggested improvements to the understandability of due process documents could be made if the Board included possible effects of proposals in Discussion Papers and Exposure Drafts.

113. The AOSSG member suggested focussing outreach on the scope of the Board's effects analysis and refinements to the Board's consultative process before adding a major project to its work plan between agenda consultations would be useful.

Update and agenda planning

114. The staff presented Agenda Paper 10, including the proposed agenda for the July 2019 ASAF meeting. The staff noted that due to the timing of the Exposure Draft *IBOR Reform and its Effects on Financial Reporting* they no longer proposed to include this topic on the agenda for the July 2019 meeting. ASAF members agreed with the staff proposal.

115. The FRC member proposed including on the agenda for the July 2019 meeting the FRC staff paper *Business Reporting of Intangibles: Realistic proposals* and its project on Variable and Contingent Consideration.