

Summary note of the Accounting Standards Advisory Forum

Held on 2 April 2020 via remote participation 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 (participating remotely)
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)
Invited representative of a non-member National Standard-setter (NSS)	Hong Kong Institute of Certified Public Accountants

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IBOR Reform and its Effects on Financial Reporting—Phase 2

1. The objective of this session was to provide ASAF members with an overview of the Board’s proposed amendments to be included in the forthcoming Exposure Draft *Interest Rate Benchmark Reform—Phase 2* (expected proposals). The Board plans to publish the Exposure Draft *Interest Rate Benchmark Reform—Phase 2* (Phase 2 ED) during April 2020 with a 45-day comment period. The Board is aiming to issue the final amendments by Q3 2020.
2. ASAF members provided preliminary views gathered from their stakeholders on the expected proposals.
3. ASAF members confirmed the urgent nature of the project and expressed support for the Board’s expeditious process in developing the Phase 2 ED, such that it allows for a timely completion of endorsement processes in jurisdictions. In this context, the AcSB member emphasised the importance of the final amendments being issued to the timetable, given some entities in Canada prepare financial statements for the year ending 31 October 2020.
4. The EFRAG member said that, in anticipation of the Phase 2 ED, EFRAG published a pre-consultation document which is a preparatory working version of EFRAG’s draft comment letter. She said that EFRAG will aim to follow a fast-track process (similar to that for Phase 1 of this project) that will allow the endorsement process in the EU to be completed for financial statements prepared as at 31 December 2020.
5. ASAF members expressed broad agreement with the expected proposals. ASAF members shared the following comments gathered from their stakeholders.

What constitutes a ‘modification’ of financial assets and financial liabilities

6. With respect to the Board’s proposal to define what constitutes a modification of a financial instrument when applying IFRS 9, the EFRAG and AOSSG members emphasised that they support the expected proposal on the basis that its scope does not extend beyond modifications arising as a result of interest rate benchmark reform. They noted this scope avoids unintended consequences. The EFRAG member said some European national standard-setters did not consider this expected proposal necessary.

Disclosures

7. With respect to the expected proposals on disclosures, some ASAF members (AOSSG, AcSB, ARD, ANC) suggested the Board consider the following:
- (a) whether the disclosure requirement in paragraph 24H(b) of IFRS 7 added as part of Phase 1 of this project—that is, the extent of risk exposure the entity manages that is directly affected by interest rate benchmark reform—needs to be replicated for the purpose of disclosure proposals in Phase 2 ED.
 - (b) whether the proposal to disclose the extent that interest rate benchmark reform has resulted in changes to an entity’s risk management strategy (including a description of those changes and of how the entity is managing these risks appropriately), meets the proposed disclosure objective for information that would enable users to understand the nature and extent of risks arising from interest rate benchmark reform to which the entity is exposed and how the entity manages those risks. The ARD member suggested the Board adds a specific disclosure requirement to meet this objective.
 - (c) whether it would be simpler if the Board were to combine in one, the following two proposed disclosure requirements:
 - (i) how the entity is managing the transition to alternative benchmark rates; and
 - (ii) how the entity is managing the new risks resulting from changes to an entity’s risk management strategy (to the extent that interest rate benchmark reform has resulted in changes to an entity’s risk management strategy).
 - (d) given the narrow-scope nature of the project, whether the disclosure requirements are justified given costs for preparers to provide such information. Specifically, the ANC member said some preparers in France are concerned that disclosing information about carrying amount of financial assets and financial liabilities, (including the nominal amount of the derivatives), that are referenced to benchmarks subject to the reform, disaggregated by significant interest rate benchmark, could be burdensome.

8. In response, a technical staff member highlighted that the expected proposals on disclosures represent an addition to the disclosures required by IFRS 7, including those added to IFRS 7 in Phase 1 of this project. Accordingly, the Board would expect that, to the extent applicable, those requirements would also be applied to disclose information about the effects of interest rate benchmark reform to an entity's financial instruments and risk management.

Other comments

9. The AcSB and ASBJ members said that some stakeholders in Canada and Japan have the following concerns with respect to the potential effects of interest rate benchmark reform not subject of the expected proposals:
 - (a) the lack of an exception for the 'reliably measurable' requirement in IFRS 9 and IAS 39 for an alternative benchmark rate designated as a non-contractually specified risk component in either a cash flow hedge or a fair value hedge. In their view, an entity's ability to conclude that an alternative benchmark rate is reliably measurable could be affected in the early stages of the interest rate benchmark reform, when a particular market might not yet be sufficiently developed. Satisfying such requirement in these circumstances in absence of any temporary exception could be challenging.
 - (b) more instruments classified as Level 3 in the fair value hierarchy applying IFRS 13 *Fair Value Measurement* and the effect on the amount of regulatory capital that regulated entities, such as banks, would be required to hold.
 - (c) if entities effect the interest rate benchmark reform in a way so that financial instruments designated in a hedging relationship refer to two different alternative benchmark rates and consequently result with a basis difference between two different alternative benchmark rates, which in turn will result in hedge ineffectiveness. The ASBJ member asked whether the Board would consider some type of relief with respect to the effectiveness assessment in these circumstances, noting that this issue might be applicable in other jurisdictions and not limited to Japan.
10. In response to the issue raised in paragraph 9(c), Sue Lloyd, vice-chair, said that while this issue has been raised before, the Board has not addressed it due the underlying

challenges. The basis difference, while it may be short-lived (ie until hedged item and hedging instrument both move to the same rate), represents an economic effect—that is, the resulting ineffectiveness would be a real economic mismatch. Furthermore, defining the period over which any potential relief would apply could be challenging given that it would depend on when entities move their hedged items and hedging instruments to the same alternative benchmark rates.

11. Some ASAF members (AOSSG, FRC, ARD, KASB) raised one or more of the following items, as issues that they would expect to be clarified in the Phase 2 ED:
 - (a) which changes would meet the Board’s conditions to be determined as changes required by the interest rate benchmark reform (eg changes in reset dates; changes in the method used to determine the interest rate benchmark; and examples illustrating a new basis for determining the contractual cash flows considered to be economically equivalent to the basis preceding transition to alternative benchmark rates).
 - (b) the Board’s rationale for the use of 24-months period in its proposal with respect to the alternative benchmark rate being deemed as separately identifiable; and whether the 24-months period commences from the date that the alternative benchmark rate is designated in a particular hedging relationship (ie is the commencement date specific to the entity) or whether the date that 24-months period commences is a market-driven decision.
12. In response to the issues described in 11(b), Sue Lloyd said that the Basis for Conclusions of the Phase 2 ED will include the Board’s rationale for the use of the 24-months period but it will also acknowledge that it is somewhat arbitrary given it is a fixed period while aiming to provide a reasonable period of time until the liquidity of the alternative benchmark rates is established. As to when the 24-months period commences, she said that subject to meeting the requirements the Board is proposing, the 24 month-period starts from the date that the entity designated the risk component in a hedging relationship.

Update on agenda planning

13. The objective of this session is to update the ASAF members on the Board’s work plan and discuss the agenda for the next ASAF meeting. The technical staff said that

given the current global crisis surrounding covid-19, the Board plans to reconsider the timeline for its various projects at its April 2020 meeting. Consequently, the technical staff proposed to discuss the agenda for the next ASAF meeting with members after the April 2020 Board meeting.

14. The FRC member suggested the Board allocate time for urgent matters that may arise because of the covid-19 crisis.
15. The AOSSG member suggested holding the July ASAF meeting virtually. The member also recommended the Board extend the comment period for consultation documents to allow outreach activities and gather better feedback. The member suggested the Board consider extending the comment period for the following consultation documents:
 - (a) the Exposure Draft: *General Presentation and Disclosures*;
 - (b) the Request for Information: *Comprehensive Review of the IFRS for SMEs Standard*;
 - (c) the Discussion Paper: *Business Combinations—Disclosures, Goodwill and Impairment*; and
 - (d) the Tentative Agenda Decisions for IFRS 16 *Leases (Sale and Leaseback with Variable Payments)* and IAS 12 *Income Taxes (Deferred Tax related to an Investment in a Subsidiary)*.
16. The ANC member commented that the current crisis is an opportunity for the Board to check the robustness of IFRS Standards.
17. The Chairman commented that if the July 2020 ASAF meeting proceeds, it will likely be a virtual meeting.

Goodwill and Impairment

18. The objective of the session was to provide ASAF members with an overview of the Board's preliminary views included in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*. ASAF members were also asked for their advice on how the Board should conduct its outreach and fieldwork activities in view of the current covid-19 crisis.

19. ASAF members will be asked for their feedback on the Discussion Paper at a later meeting.
20. Some ASAF members (FRC, EFRAG, AcSB, ANC and OIC) commented that it would be difficult to perform outreach at this point, particularly with investors.
21. The FASB member commented that the FASB project on goodwill is on hold as it has more urgent issues to address in view of the current crisis.
22. The ARD member said the Discussion Paper is being translated into Chinese to help encourage stakeholders to comment, as the project is very important for China.
23. Suggestions by ASAF members on the outreach and fieldwork activities included:
 - (a) Two members (FRC and EFRAG) commented that some stakeholders believe that by the Board expressing its preliminary view, that it should retain the impairment-only model, it has already decided not to reintroduce amortisation. These members suggested the Board be aware of this belief when performing outreach. The technical staff confirmed that the Board's views are preliminary, that the Board welcomes stakeholders' feedback on all its preliminary views. They affirmed the Board will redeliberate its preliminary views taking into consideration feedback on the Discussion Paper. The technical staff noted that the Board's preliminary view on whether to retain the impairment-only model is supported by a narrow majority. The technical staff stressed that the Board especially welcomes new evidence or new arguments on this topic of long-standing debate.
 - (b) Two members (EFRAG and OIC) mentioned timing as an issue and suggested the Board consider extending the comment period for the Discussion Paper.
 - (c) The AcSB member suggested the Board include in its outreach material illustrative examples of the enhanced disclosures. This could help investors visualise the Board's preliminary views and elicit better feedback.
 - (d) The ARD member suggested the Board involve regulators and auditors in its outreach activities given their roles in the audit and oversight of financial statements. The member also suggested that the Board conduct research to evaluate how reintroducing amortisation would affect companies' financial positions and capital markets.

- (e) The ASBJ member suggested that the Board should not fix the number of participants for its fieldwork. Instead, the member suggested the Board should focus on the geographical and industrial diversity of participants and be flexible on the number of participants needed to achieve this.
 - (f) Two members (FASB and KASB) suggested that it is important to ask preparers, as part of the fieldwork, about the cost of providing the enhanced disclosures. In particular, the FASB member suggested the Board look at how regulations relating to internal controls may interact with the Board's enhanced disclosures.
 - (g) The OIC member commented that it is important to ask preparers whether they believe commercial sensitivity is an issue regarding the enhanced disclosures.
 - (h) The AOSSG member suggested that the outreach and fieldwork should involve broader research to better understand the diversity of views and suggested the Board could use the outreach and fieldwork to educate stakeholders and to seek views from them on the usefulness of existing disclosure requirements in IFRS 3 *Business Combinations*.
 - (i) The ANC member suggested the Board use the outreach to see whether stakeholders believe the current model for accounting for goodwill is broken and to ask whether accounting preferences in a jurisdiction are affected by whether goodwill is deductible for tax in that jurisdiction. The member also suggested that, as reintroducing amortisation would be a major accounting change, the focus in the outreach should be to obtain researched rather than merely anecdotal evidence.
24. The FASB member then presented an overview of the feedback received on the Invitation to Comment *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*.
25. The ASBJ member and a guest presenter from the HKICPA then presented their Research Paper *Goodwill: Improvements to Subsequent Accounting and an Update of the Quantitative Study*.

Better Communication – Primary Financial Statements

26. The purpose of this session was to answer questions and seek preliminary feedback on the proposals included in the Exposure Draft *General Presentation and Disclosures* published in December 2019.
27. ASAF members were asked about the following topics:
 - (a) subtotals and categories in the statement of profit or loss;
 - (b) disaggregation;
 - (c) management performance measures (MPMs); and
 - (d) statement of cash flows.

Subtotals and categories in the statement of profit or loss

28. ASAF members were generally supportive of the proposals on subtotals and categories in the statement of profit or loss. The AcSB member said both investors and preparers support these proposals, and that the new subtotals would provide a strong foundation for comparisons.
29. The EFRAG member said their stakeholders generally supported the proposals for the operating category, but had concerns about how to classify items in the investing and financing categories. The member also suggested the Board consider interactions with local presentation requirements for regulated sectors in the EU.
30. The KASB member said their stakeholders preferred operating profit to be defined in a positive way, that it includes only income and expenses from main business activities and excludes non-core items such as donations.
31. The ASBJ member expressed a concern that the proposals may prevent companies from presenting some subtotals in the statement of profit or loss that they currently present to comply with paragraph 85 of IAS 1. The member acknowledged that these subtotals could be disclosed in the notes as management performance measures. However, the member was concerned that this could result in a loss of prominence for these subtotals. The ASBJ member was also concerned that carrying over paragraph 85 of IAS 1 to the new Standard might over-complicate the statement of profit and loss.
32. Many ASAF members expressed concerns about the proposed requirement to distinguish integral and non-integral associates and joint ventures:

- (a) The AOSSG and KASB members said they have not heard support from users for the distinction, and, their preparers stakeholders are concerned that the cost of providing the information would outweigh the benefit.
 - (b) The ARD and OIC members said the requirement would be difficult to apply due to the level of judgement involved.
 - (c) The EFRAG member said it would be difficult especially for businesses with multiple segments across different industries.
33. The AOSSG and KASB members asked why separate presentation is only required for equity-accounted for investments in associates and joint ventures but not for investments accounted for at cost or fair value. The technical staff clarified that the Board received users' feedback on the need for separate presentation of equity-accounted investments in associates and joint ventures and that such investments should not be included in operating profit, and there was no such feedback for investments accounted for at cost or fair value.
34. The AOSSG member also asked for clearer and more detailed guidance on how to make the distinction between integral and non-integral associates and joint ventures. They also suggested that instead of requiring separate presentation, enhanced disclosure could better achieve the objective.
35. The AcSB, ARD and EFRAG members asked for better alignment between the categories in the statement of profit or loss and those in the statement of cash flows, otherwise the similar labels would cause confusion.

Disaggregation

36. Many ASAF members expressed concern about the Board's proposal to prohibit the disaggregation of operating expenses using a mix of functional and nature line items. The AcSB, EFRAG and AOSSG members said that currently many companies use a mixed presentation in their jurisdictions, so there might be a resistance to change. The ANC member said in some cases mixed presentation should be allowed, such as presenting goodwill impairment when a company presents expenses by function. The AOSSG member said it would be costly to provide by-nature information for a company presenting expenses by function.
37. The FASB member commented that it would be difficult to separate the nature and functional components.

38. The AcSB member said their users cared more about information about variable and fixed expenses rather than information about expenses by nature.
39. The FRC member said the proposal is too binary and asked why the Board gave primacy to information by nature. The technical staff clarified that it was not the Board's intention to give primacy to information by nature and that both methods can be presented in the statement of profit or loss. The proposals for disclosure by nature respond to users' need for information about expenses.
40. Most ASAF members supported the proposals on unusual items, but many members expressed concerns relating to the proposed definition:
 - (a) The EFRAG, ANC, AOSSG and FRC members said the definition of 'several future reporting periods' is too restrictive and suggested the Board adopt a broader approach.
 - (b) The AOSSG member suggested the term 'limited predictive value' is subjective and requires clarification.
 - (c) The FRC member said the definition might be inconsistent with the objective of trying to include items with limited predictive value.
 - (d) The EFRAG member gave an example of a restructuring that lasts for several years, the costs of which might still have limited predictive value.
 - (e) The AcSB member said the definition is consistent with regulatory requirements in Canada, but their user stakeholders asked for clearer guidance.
 - (f) The ARD member said their stakeholders also asked for more guidance and examples on unusual income and expenses.
 - (g) The KASB member suggested that unusual items should only be identified in the operating category, as identifying unusual items in the financing and investing categories would be less important to users and onerous for preparers.
 - (h) The ANC and FASB member asked how the proposals on unusual items would apply to income and expenses arising from covid-19.

Management performance measures

41. Many ASAF members said they are still conducting outreach with stakeholders on this topic, but the feedback received so far has been positive. However, many ASAF members expressed concerns around the scope, in particular what is considered ‘public communications’.
 - (a) The AOSSG member asked whether public communications include informal materials such as social media posts.
 - (b) The EFRAG, ARD and FRC members raised concerns about how MPM information can be audited. The FRC member said it is impracticable for auditors to examine all public communication materials and suggested narrowing the scope.
42. The AcSB said their user stakeholders were very supportive of the proposals and asked to further broaden the scope of MPMs, but auditors had some concerns about being able to audit them.
43. The technical staff responded that they had received mixed feedback from auditors—some expressed similar concerns about auditing MPM, whereas other auditors did not share these concerns.
44. The KASB member commented that bringing information from outside the financial statements into the notes might not be consistent with the role of the notes. However, the FRC member said it should be the role of IFRS Standards to bring more discipline around the use of non-GAAP measures.
45. The EFRAG member also asked the Board to clarify the relationship between the proposals on MPMs and IFRS 8 *Operating Segments*.

Statement of cash flows

46. The EFRAG member recommended the Board undertake a separate comprehensive project on IAS 7 *Statement of Cash Flows*.