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STAFF PAPER

Prepared for the Global Preparers Forum Meeting

Paper topic	**Follow up on issues discussed at the March 2018 GPF meeting**		
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Purpose of this paper

1. This paper provides a brief, high-level update to the Capital Markets Advisory Committee (CMAC)[1] and the Global Preparers Forum (GPF)[2] on how the staff or the International Accounting Standards Board (the Board) considered the advice received during the GPF meeting held in March 2018. It is for information purposes only.

[1] Information about the CMAC's past meetings can be found at http://www.ifrs.org/About-us/IASB/Advisory-bodies/CMAC/past-meetings/Pages/past-meetings.aspx.

[2] 2 Information about the GPF's past meetings can be found at https://www.ifrs.org/groups/global-preparers-forum/#meetings

Update on advice received at the March 2018 GPF meeting

Topic	Summary of GPF views presented	Next steps / action taken by the IASB
Principles of Disclosure The purpose of this session was to inform GPF members about the feedback received in response to the Discussion Paper *Disclosure Initiative—Principles of* Disclosure (Discussion Paper) and seek their advice on the next steps in the project. Specifically, GPF members discussed: (a) addressing the disclosure problem; (b) relative prioritisation of six topics included in the Discussion Paper; and (c) the effect of technology and digital reporting on the project.	**Addressing the disclosure problem** GPF members expressed mixed views on the approach to addressing the disclosure problem. A few GPF members said that the Board should undertake a *comprehensive* standards-level review of disclosure requirements. Some of these members said the objective should be to remove prescriptive language. Other members said the objective should be to categorise each disclosure requirement on the basis of its relative importance to users of financial statements, for example, by separately identifying disclosures that are *always* required from disclosures that are required if the information is material. One member added that categorising the disclosure requirements would be especially helpful to small companies or companies in emerging markets. A few members said that the Board should perform a *targeted* standards-level review of disclosure requirements. One of these members said that the objective should be to remove what they viewed as unnecessary disclosures such as some of those on pensions and financial instruments. One other member added that the Board should not review recent Standards. A few members suggested that the Board should develop principles that will clarify the objective of disclosure requirements in the Standards in order to encourage preparers and auditors to exercise better judgment. For example,	At the March 2018 Board Meeting, the Board decided: 1) To undertake a Targeted Standards-level review of Disclosures. Specifically, the Board will develop guidance for the Board itself to use to improve the way that it develops and

	the Board could discourage the disclosure of immaterial information and clarify to what extent complying with prescriptive language, such as ‘shall’, should be balanced with the assessment of materiality. A few members said that prescriptive disclosure requirements are helpful to preparers. One member added that removing prescriptive language from the Standards would be of only limited help to preparers during discussions with regulators and auditors. One member said that disclosures in the financial statements are excessive because of the concept of materiality is applied inappropriately. This member said that providing guidance on materiality alone would not help to address the disclosure problem and suggested that regulators should develop a way to penalise excessive disclosures in the financial statements. **Project focus/prioritisation** GPF members were asked to comment on the relative prioritisation of the following topics from the Discussion Paper: (a) which accounting policies to disclose; (b) IFRS information outside the financial statements; (c) non-IFRS information inside the financial statements; (d) clarifying the use of the terms ‘present’ and ‘disclose’ in IFRS Standards; (e) formatting; and (f) location of accounting policies. A few members said that the Board should prioritise the topics related to the location of information; that is, IFRS information outside the financial statements and non-IFRS information inside the financial statements. One member added that the Board should also consider prioritising guidance on whether disclosures should be provided as a single figure or a range. A few members said that the Board should *not* prioritise topics on:	drafts disclosure objectives and requirements in future. The Board will also select one or two IFRS Standards on which to test and improve that guidance. This is expected to lead to improvements in the disclosure requirements in the selected Standards. 2) To perform further analysis before deciding upon next steps relating to the location of

	(a) formatting and location of accounting policies, because entities need flexibility in these areas. One of these members, however, suggested that the Board could provide non-mandatory guidance on these two topics; (b) which accounting policies to disclose, because that is an entity-specific consideration; and (c) clarifying the use of the terms 'present' and 'disclose' in IFRS Standards. A few members commented on the content of the guidance for some topics: (a) one member said that the Board should not be too prescriptive in providing guidance or requirements on the topics, as they involve a high level of judgment by preparers. (b) a few members said the Board should clarify what it means by non-IFRS information. A few other members added that they have experienced audit difficulties regarding IFRS information provided outside the financial statements. **Effect of technology** One member said that the Board should consider the impact of more principles-based disclosure requirements on the IFRS Taxonomy. This member highlighted that it could be challenging to reflect principles-based disclosure requirements in the IFRS Taxonomy and that such requirements could result in more entity-specific extensions. One member suggested that the Board should consider both how technology is used today and how to respond to future changes in technology.	information, accounting policy disclosures and the effects of technology and digital reporting To consider whether to perform any further activities relating to materiality when the Board has more information about the practical effects of recent Board publications relating to the application of materiality.
Primary Financial Statements The purpose of this session was to seek feedback from GPF members on the possibility of: (a) introducing management performance measures (MPMs)	**Management performance measures and adjusted EPS** ***Management performance measures***	The Board considered the feedback received about the MPM and adjusted EPS proposals at its April 2018 Meeting. The Board will consider the other

and management-defined adjusted earnings per share (adjusted EPS) into the financial statements; and (b) improving the presentation of the share of profit or loss of associates and joint ventures in the statement(s) of financial performance.	GPF members were generally supportive of the overall approach of introducing MPMs into the financial statements, but they had some concerns about the location of MPMs in the financial statements. The staff introduced the following suggestion for the location of MPMs: (a) if an MPM fits in the Board's proposed structure for the statement(s) of financial performance and satisfies the requirements in IAS 1 *Presentation of Financial Statements* for subtotals, it should be presented as a subtotal in the statement(s) of financial performance; and (b) if an MPM does not fit in the statement(s) of financial performance, the notes should disclose a separate reconciliation between the MPM and the most appropriate measure specified or defined in IFRS Standards. One GPF member said that if the Board's aim is to improve the relevance of the statement(s) of financial performance, it should allow or require MPMs to be presented always in, or adjacent to, the statement(s) of financial performance, even if the measures do not meet the requirements described in paragraph 28(a). However, another GPF member disagreed and said that MPMs should always be presented in the notes, because MPMs are management-defined and would be less prominent in the notes. Whilst some GPF members were supportive of the staff proposal to have the reconciliation in the notes, as described in paragraph 28(b), a few GPF members encouraged the Board to require the reconciliation to be provided in a columnar format in the statement(s) of financial performance. They provided the following reasons: (a) such a format would clearly show the effect of adjustments on each line item and subtotal in the statement(s) of financial performance.	feedback received at future meetings and/or during development of the first due process document.

	(b) more MPMs would fit in the statement(s) of financial performance under a columnar approach than in a linear reconciliation under the requirements in paragraph 28(a). However, one GPF member said no specific format should be required for the reconciliation. ***Adjusted EPS*** GPF members expressed mixed views on staff suggestions for entities to provide: (a) an adjusted EPS that is calculated consistently with the entity's MPMs; and (b) an accompanying reconciliation showing the tax effect, and the share of non-controlling interests (NCI), of adjustments made in calculating adjusted EPS. A few GPF members were supportive of the suggestions. They said they already provided an adjusted EPS as well as the accompanying reconciliation. In their view, users find such information useful. One GPF member said that the information in the reconciliation is needed as an input for calculating the adjusted EPS anyway, so disclosing the reconciliation would not lead to significant additional costs or effort. This GPF member also said the tax effect should be disclosed separately from the share of NCI. However, some other GPF members said they currently do not present adjusted EPS. For example, they provide only an 'adjusted operating profit', but do not provide a post-financing, post-tax and post-NCI version of this measure. They said that providing adjusted EPS and the reconciliation would require significant additional effort for them. These GPF members suggested	

	that an adjusted EPS and the accompanying reconciliation should be required only if management uses adjusted EPS in its internal reporting. **Presentation of the share of profit or loss of associates and joint ventures in the statement(s) of financial performance** Many GPF members said they did not support the suggested distinction between the share of profit or loss of integral and non-integral associates and joint ventures in the statement(s) of financial performance. These GPF members provided the following reasons: (a) any definition of 'integral' and 'non-integral' would require significant judgement and would be difficult to audit. Some GPF members noted specific cases where such a definition would be difficult to apply, for example by conglomerates with various businesses and by entities investing in associates and joint ventures that are start-ups. (b) existing disclosures—such as those required by IFRS 12 *Disclosure of Interest in Other Entities*—already provide information to investors about the significance and nature of the activities of an entity's associates and joint ventures. A few GPF members also said the allocation of the associates and joint ventures to an entity's reporting segments already provides information about whether the associates and joint ventures are 'integral' or not. (c) they would not expect to invest in any associates or joint ventures that is not part of their core business—in other words, they did not expect to have any non-integral associates or joint ventures. Some of these GPF members said they preferred a single location in the statement(s) of financial performance for the share of profit or loss of all associates and joint ventures. However, these members had different suggestions for what that location should be. For example, one member	

	suggested it should be presented within 'income/expenses from investments', whereas another member suggested it should be presented in an 'operating' section together with results from consolidated entities.	
Goodwill & Impairment The staff sought feedback on: (a) a staff proposal about an approach to the impairment testing of goodwill that considers movements in headroom. Headroom is the excess of the recoverable amount of a cash-generating unit (or group of units) over the carrying amount of that unit. (b) the requirement in IFRS 3 Business Combinations to recognise all identifiable intangible assets acquired in a business combination separately from goodwill, specifically whether: (i) recognising all identifiable intangible assets separately from goodwill provides useful information; (ii) the reason for investors' concerns about credibility of fair value of recognised	***Using movements in headroom in testing goodwill for impairment (headroom approach)*** The staff sought feedback from GPF on the nature and extent of costs that might have to be incurred in applying the headroom approach. Most members said that the headroom approach is likely to add significant costs to the impairment testing of goodwill, and consequently did not support the headroom approach. They said the costs would arise for two reasons: (a) currently companies generally do not perform a detailed calculation of recoverable amount if, on the basis of estimates, averages and computational short cuts, it is clear that the recoverable amount would be sufficiently higher than the carrying amount of the cash-generating unit (or groups of units). However, to use the headroom approach, a more precise measurement of recoverable amount would be required every year. (b) the headroom approach contains a presumption that a company would attribute all of any decrease in total headroom to acquired goodwill. However, a company could rebut the presumption if there is evidence that all or part of the decrease should instead be attributed to unrecognised headroom. Rebutting the presumption would cause significant incremental debate with auditors and would also attract questions from regulators. Some members said that there would be costs involved in tracking actual performance against the assumptions made in analysing the factors that support the consideration paid for the business combination. One member supported the headroom approach but thought that, if goodwill acquired in a business combination is allocated to an existing cash-generating	The staff considered the comments from the members in their research and presented them to the Board in its April 2018 meeting. In relation to the separate recognition of intangibles in a business combination, the Board tentatively decided not to purse allowing some intangible assets to be included within goodwill. The Board will continue to discuss the next stage of the project at a future meeting.

intangible assets is insufficient disclosure; and (iii) there are ways of allowing some identifiable intangible assets to be included within goodwill without losing relevant information.	unit (or groups of units), any subsequent decrease in total headroom should not be attributed to the acquired goodwill so long as the unrecognised headroom is in excess of the unrecognised pre-combination headroom. Two GPF members said that they do not support the headroom approach because, in addition to concerns about costs of applying approach, they questioned the conceptual basis for the approach. One member said that users seem to prefer disclosure of segment information on acquisitions that would help them assess the success of those acquisitions rather than relying on the amount of goodwill impairment loss recognised. Therefore, that member suggested that the Board should consider requiring such disclosure instead of pursuing the headroom approach. Another member said that introducing the headroom approach would create an inconsistency with the prohibition in IAS 36 *Impairment of Assets* on reversal of impairment losses for goodwill. The headroom approach attributes part or all of a decrease in total headroom to acquired goodwill, but the prohibition in IAS 36 means that no part of any subsequent increase in total headroom can be attributed to acquired goodwill. ***Recognising all identifiable intangible assets acquired in a business combination*** The staff sought feedback from GPF on whether useful information is provided by the recognition of all identifiable intangible assets separately from goodwill. Members generally supported the current requirement in IFRS 3 to recognise all identifiable intangible assets, for various reasons: (a) One member said that the current requirement helps a company better explain the assets that it has acquired. (b) Another member said that the current requirement permits separate recognition of intangible assets that are not very different from goodwill,	

	such as brands, and amortising those intangible assets. This takes some pressure off testing goodwill for any impairment. One member said that separate recognition of indefinite-lived intangible assets does not provide useful information. In relation to whether valuing some intangible assets, such as brands and customer relationships, is costly and complex, some members said that valuing identifiable intangible assets acquired in a business combination is not costly because it is a one-off activity and companies have access to valuation service providers and valuation models. In relation to possible ways of allowing some identifiable intangible assets to be included within goodwill without losing relevant information, most GPF members did not support any of the possible approaches identified by the staff. One member supported the idea of allowing indefinite-lived intangible assets acquired in a business combination to be included within goodwill, but said that they should be recognised separately if they are already generating independent cash flows. One GPF member expressed opposition to requiring disclosures similar to those in IFRS 13 *Fair Value Measurement* for intangible assets acquired in a business combination.	