

Summary note of the Accounting Standards Advisory Forum

Held on 2 October 2020 via remote participation at the IFRS Foundation office, Columbus Building, 7 Westferry Circus, Canary Wharf, London E14 4HD.

This note is prepared by the staff of the International Accounting Standards Board (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 via video)
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.

Goodwill and Impairment

1. The objective of this session was to obtain an understanding of ASAF members' plans for outreach and fieldwork to stimulate feedback for the Discussion Paper *Business Combination—Disclosures, Goodwill and Impairment*, published in March 2020 and open for comments until 31 December 2020. ASAF members also discussed the initial feedback from their stakeholders, and how that feedback compared to what the Board has heard so far.

Outreach and fieldwork

2. Some ASAF members (ANC, ARD, EFRAG, FRC, KASB and PAFA) said they had undertaken limited outreach to date. Some ASAF members said outreach was affected by the covid-19 pandemic; others mentioned that stakeholders had been focused on responses to the Board's Exposure Draft *General Presentation and Disclosures*, for which the comment period ended in September 2020.
3. Many ASAF members (AcSB, ANC, ARD, ASBJ, EFRAG, FRC, KASB, OIC, PAFA) said they have plans for outreach events over the last quarter of 2020. The EFRAG member said that EFRAG has launched a preparers' survey.

Initial feedback

4. ASAF members said that the initial feedback from their stakeholders was generally in line with what the Board has heard. Members also highlighted some specific stakeholder comments.

Better disclosures for business combinations

5. Many ASAF members agreed with the need for additional disclosures about the subsequent performance of acquisitions. Some ASAF members said that the Board's preliminary views have the potential to provide users of financial statements with useful information. However, members also identified some challenges with the Board's preliminary views:
 - (a) many ASAF members (AcSB, ANC, ARD, AOSSG, EFRAG, FRC, GLASS, KASB, OIC and PAFA) highlighted potential difficulties in implementing the Board's preliminary views, for example, the commercial sensitivity and verifiability of information, and issues with information that could be forward looking. The ANC member nonetheless said providing

better disclosures about business combinations is needed to support retaining the impairment-only model. The PAFA member highlighted the need to understand jurisdictions' regulatory requirements in considering these potential difficulties.

- (b) the KASB, OIC and AOSSG members said that subsequent performance information should not be included in the financial statements. The AcSB and EFRAG members suggested that the Board might wish to explore whether this information could be included in management commentary instead. The ASBJ member added that opinions differ on whether such information would be better suited to the financial statements or to the management commentary.

6. Some ASAF members also commented on the Board's preliminary views about its targeted improvements to disclosure requirements in IFRS 3 *Business Combinations*:

- (a) the EFRAG member stated that requiring entities to disclose expected synergies could be useful, but a proper definition of the term would be required. The KASB member said that disclosures of synergies could be difficult to measure and audit and therefore users would not find this information reliable.
- (b) the ARD member suggested the Board consider providing more guidance on how entities prepare pro-forma information.

Subsequent accounting for goodwill

7. ASAF members provided the following comments about the Board's preliminary views on subsequent accounting for goodwill:

- (a) on the effectiveness of the impairment test and whether to reintroduce amortisation of goodwill:
 - (i) the AOSSG, EFRAG and FRC members emphasised that their stakeholders remain divided on whether goodwill should be amortised or be subject to an impairment-only model.
 - (ii) the PAFA member said that while the requirements for the impairment test are not perfect, they work at the moment. The ANC member said that he is supportive of retaining the impairment model

and added that requiring goodwill to be amortised could destabilise the existing accounting model and raise new questions.

- (iii) the ASBJ member said that the Board should consider as new all evidence and arguments received after the Post-implementation Review of IFRS 3. The ANC and GLASS members said they have seen no new reasons to reintroduce amortisation. The EFRAG member said that, although EFRAG had heard no new arguments, there may be practical reasons to reintroduce amortisation because goodwill has become more important, with the ratio of goodwill to equity increasing.
 - (iv) the ASBJ member added that, based on initial feedback, stakeholders in Japan do not agree with the Board's objective in the project—some of these stakeholders said the Board should focus on solving the 'too little, too late' problem with the impairment test, which was identified in the Post-implementation Review of IFRS 3.
 - (v) the FASB member mentioned that the covid-19 pandemic has forced some entities to recognise large impairment losses, which some stakeholders said are 'too much, too early'. He also mentioned that the FASB had taken a directional vote to pursue an amortisation approach, although more work was needed on the mechanics.
 - (vi) the FASB and ASBJ members stated that some of their stakeholders would like IFRS Standards and US GAAP to remain converged on the subsequent accounting for goodwill.
- (b) on simplifying the impairment test:
- (i) the FASB member said that many impairments occur over time and that it is challenging to identify an individual event that results in an impairment, resulting in a challenge for an indicator-based impairment approach. The AcSB member commented that some stakeholders in Canada expressed concerns that the indicator-based impairment approach may impact the robustness of the test. The EFRAG member did not support the indicator-based impairment approach because it could worsen problems with the impairment test.

The AOSSG member said that useful disclosures could be lost if an entity did not perform an impairment test and suggested that the Board require entities to disclose the reason for not performing the quantitative test under the indicator-based impairment approach.

- (ii) the AcSB member said that in Canada stakeholders support the value in use simplifications overall because they would simplify the impairment test and make it more understandable.
 - (iii) the OIC member indicated his support for allowing the use of post-tax discount rate and post-tax cash flows in estimating value in use. However, the OIC member disagreed with the Board's preliminary view to allow restructuring cash flows in estimates of value in use because the determination of these cash flows is, in his view, too subjective.
 - (iv) the FRC member was concerned that the Board's simplifications of the impairment test could create difficulties for auditors when they challenge management.
- (c) ASAF members made other comments on the subsequent accounting for goodwill, for example:
- (i) the ANC and EFRAG members suggested the Board consider allowing reversal of impairment losses on goodwill. They also suggested the Board explore the possibility of requiring entities to disclose the accuracy of past forecasts used in the impairment test to help curb management over-optimism. The ANC member suggested improvements to how entities estimate the value in use.
 - (ii) the ANC, EFRAG and OIC members suggested the Board include more guidance on how to allocate goodwill to cash generating units (CGUs) to help improve the effectiveness of the impairment test. The EFRAG member also suggested the Board link the enhanced disclosures on the subsequent performance of business combinations to the allocation of goodwill to CGUs.

- (iii) the ANC member suggested the Board consider requiring entities to disclose more information about the headroom in impairment tests, as well as the amount and volatility of terminal values used in performing the impairment test. The EFRAG member suggested the Board consider enhancing the disclosure requirement about assumptions used in estimating terminal value in the impairment test of goodwill.

Other topics

- 8. The KASB and AOSSG members said that some of their stakeholders agreed with the Board's preliminary view to require presentation of equity before goodwill on the statement of financial position, but the KASB member urged the Board to clarify its rationale in the Basis for Conclusions if the requirement is finalised. In contrast, the AcSB and OIC members said that they do not agree with requiring this presentation because the amount of equity before goodwill can be easily calculated by users of financial statements and the presentation of this amount in the statement of financial position could raise questions on whether goodwill is indeed an asset.
- 9. The Vice Chair of the Board, who chaired the ASAF meeting, said that disclosures are important for users of financial statements. Although she concurred that preparing these disclosures can be challenging, she said that it would be helpful for the Board if, in their outreach, national standard-setters challenge some of the concerns expressed by stakeholders to help the Board identify useful information for users of financial statements.

Business Combinations under Common Control

- 10. The objective of this session was to discuss the outreach plans for the forthcoming discussion paper on Business Combinations under Common Control and to ask ASAF members for:
 - (a) feedback on the technical staff's proposed focus in the outreach;
 - (b) assistance in organising stakeholder events in ASAF members' jurisdictions; and
 - (c) advice on how to facilitate effective stakeholder engagement.

11. ASAF members generally agreed with the proposed outreach plans. Many ASAF members (AcSB, AOSSG, ARD, EFRAG, FRC, GLASS and OIC) said that business combinations under common control transactions are common in their jurisdictions and that stakeholders are familiar with the topic. The EFRAG member said that interest in the project within EFRAG jurisdictions varies and that Italy, Spain and Portugal are among the jurisdictions the project is expected to affect. The OIC member explained that entities in Italy are expected to be affected because some entities undertaking business combinations under common control apply IFRS Standards (ie intermediary parents within a wider group).
12. The ANC member said that in France a limited number of stakeholders are aware of the scope of the project, which is expected to affect only a small number of transactions. Such transactions are more frequent for non-listed entities, including those preparing for an initial public offering, which do not always apply IFRS Standards. The ANC member recommended the technical staff hold education sessions to raise awareness of the project and of entities affected.
13. ASAF members made the following comments on stakeholder engagement:
 - (a) the AcSB, AOSSG, ARD, EFRAG, FRC, GLASS and OIC members said they plan to seek feedback from their jurisdictions and offered to coordinate outreach efforts with the technical staff. The AcSB member noted that stakeholders in Canada already agree with the Board's preliminary views.
 - (b) the AcSB, AOSSG and KASB members encouraged the technical staff to use real-life examples to explain the Board's preliminary views. The AOSSG, ARD and OIC members also offered their support in identifying real-life examples.
 - (c) the AOSSG, ARD and ASBJ members suggested the technical staff target jurisdictions where business combinations under common control are common to gain better understanding of the effects of the Board's preliminary views.
 - (d) the AOSSG, ARD and GLASS members said that education efforts and stakeholder engagement could be facilitated through activities such as live webinars in various languages, virtual round tables and online surveys.

14. Some ASAF members (AcSB, ANC, EFRAG, FRC and OIC) said that the comment period for the forthcoming discussion paper coincides with the December-year-end reporting, which could limit stakeholder engagement. The ANC and OIC members emphasised that other forthcoming consultation documents are expected to overlap with the discussion paper on Business Combinations under Common Control and could potentially strain stakeholder resources already burdened by the covid-19 pandemic.
15. The OIC and GLASS members encouraged the technical staff to consider the interaction between the accounting for business combinations under common control in an entity's consolidated financial statements and the accounting for the investment in the subsidiary acquired in the combination in the entity's separate financial statements.

Conceptual Framework for Financial Reporting

16. The objective of this session was to provide ASAF members with an overview of the proposed *Chapter 4: Elements of Financial Statements*, of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*.
17. The AcSB, OIC and EFRAG members said it is important that the Board's *Conceptual Framework* and the FASB's *Conceptual Framework* remain largely consistent, because the boards use them to develop their standards. The FASB member stated that differences in the two frameworks would not necessarily result in different accounting outcomes.
18. A member of the technical staff commented that for some issues one board had decided (in the case of the Board) or proposed (in the case of the FASB) to include a matter in the definition of one of the elements of financial statements but the other board had decided, or proposed, only to discuss that matter in the supporting guidance or in the Basis for Conclusions. As examples, he noted that in revising its *Conceptual Framework* in 2018, the Board had:
 - (a) retained the concepts of control in the definition of an asset and of past event in the definitions of an asset and of a liability. Although it could be argued that these concepts were redundant and covered by other

components of the definitions, the Board had seen no compelling reason to remove them from the definitions.

- (b) added guidance supporting the definition of a liability to explain the concept of an entity having no practical ability to avoid transferring an economic resource. This guidance would help the Board analyse cases where an entity has an obligation that it may be able to avoid in some limited circumstances (for example, some levies), where it faces constructive obligation or where it faces economic compulsion.
 - (c) not added to the Board's *Conceptual Framework* a discussion of the distinction between liabilities and equity claims. The Board expected to progress such a discussion more effectively by working on the Standard on this topic.
19. The AOSSG member questioned the use of different terminology to define an asset in the Board's *Conceptual Framework* and in the FASB's *Conceptual Framework*. Both frameworks focus an entity's right, but the Board's *Conceptual Framework* specifies that an asset is a right controlled by the entity. The FASB and OIC members said it might be helpful to use the term 'control' in the definition of an asset even if it might be redundant.

Update and agenda planning

20. The objective of this session was to update ASAF members on the Board's work plan and to discuss planned topics for the December 2020 ASAF meeting.
21. The AcSB member said that stakeholders might experience difficulties providing feedback on the Board's forthcoming major consultation documents, especially in the first quarter of 2021, when preparers financial-year accounting will have been affected by the covid-19 pandemic.
22. The EFRAG member said that EFRAG is willing to present its recently published discussion paper *Accounting for Crypto-Assets (Liabilities)* at either the December 2020 or March 2021 ASAF meeting.

23. ASAF members discussed the Board's current work plan and planned topics for the December 2020 ASAF meeting:
- (a) the AcSB member asked when ASAF members would receive an overview of feedback on the Exposure Draft *General Presentation and Disclosures*. The Executive Technical Director said the Board plans to discuss the comment letter analysis of the Exposure Draft *General Presentation and Disclosures* at its December 2020 meeting and the technical staff plan to present the analysis to ASAF members at the March 2021 ASAF meeting.
 - (b) the AOSSG member questioned the objective of the discussion about the Management Commentary project and the Financial Instruments with Characteristics of Equity (FICE) project at the December 2020 ASAF meeting. The Executive Technical Director clarified that the technical staff:
 - (i) intend to seek ASAF members' advice on outreach strategy for the Management Commentary project; and
 - (ii) plan to discuss disclosure requirements relating to the FICE project with ASAF members.
 - (c) the AOSSG and OIC members questioned the feasibility of discussing the forthcoming discussion paper on Business Combinations under Common Control at the December 2020 ASAF meeting, given that the Board expects to publish the discussion paper in mid-November. The Vice Chair of the Board suggested the technical staff reconsider whether it is possible for ASAF members to share preliminary feedback on the forthcoming discussion paper during the December 2020 ASAF meeting.
 - (d) the GLASS member asked whether ASAF members could receive an update on the Board's Dynamic Risk Management project at the December 2020 ASAF meeting.