Summary note of the Accounting Standards Advisory Forum

Held remotely on 1 October 2021.

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

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) UK Endorsement Board (UKEB) Organismo Italiano di Contabilità (OIC)
The Americas	Group of Latin American Accounting Standard Setters (GLASS) Canadian Accounting Standards Board (AcSB) Financial Accounting Standards Board, United States (FASB)

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Equity Method

1. The objective of this session was to provide an update on the equity method research project and obtain ASAF members' views on:

   (a) how to respond to the application question on changes in an investor's interest in an associate without change in significant influence; and

   (b) application questions that have recurrent themes outside the scope of the project.

2. The ASBJ staff presented a paper titled *Perspectives on the Equity Method of Accounting* that proposes principles that aim to clarify which accounting requirements are appropriate applying the equity method.

Perspectives on the equity method of accounting

3. ASAF members were asked to comment on the principles proposed by the ASBJ and whether they agree that preparers applying the equity method of accounting should adopt a hybrid approach that combines aspects of both a one-line consolidation approach and a measurement basis approach.

4. The AcSB, ARD, FASB and KASB members said the principles discussed in the paper were helpful.

5. The EFRAG member said there were mixed views among its stakeholders on whether the equity method of accounting is a hybrid approach. However, EFRAG stakeholders agreed that clarifying whether the equity method is a one-line consolidation or a measurement basis approach would not solve all the application questions in practice. The member also said there were mixed initial views among EFRAG stakeholders on whether the Board should consider a broader scope project (including conceptual foundations of the equity method) or the approach the Board has decided upon. However, EFRAG stakeholders agreed that to solve application questions an assessment of whether the equity method is a consolidation approach or a measurement method would be unavoidable.

6. On the four principles set out in the paper:

   (a) the ANC and KASB members said the principles help demonstrate that the equity method is a hybrid approach, which is why the equity method is difficult to understand; and

   (b) the ARD member shared concerns over the consistency between the principles and asked for more clarification on the principles.

7. The UKEB member said the UKEB has not heard significant concerns regarding the application of the equity method in the UK.

8. The AcSB and UKEB members said that, on a continuum, investments in associates and joint ventures fall between the two types of investments on which IFRS Standards are clear—namely, subsidiaries and simple investments. They observed that there is still diversity in practice in the accounting for investments in associates and joint ventures and investors' information needs are not fully understood. The EFRAG and FASB members also commented about the need to meet with investors to better understand their information needs.

9. Regarding the Board's approach to developing principles on applying the equity method set out in IAS 28 *Investments in Associates and Joint Ventures*, the ASBJ member said the principles should be included in the Standard rather than in the basis for conclusions or another document.

Accounting for changes in an investor's interest in an associate without change in significant influence

10. ASAF members were asked for views on the four alternatives for responding to the application question on changes in an investor's interest in an associate without change in significant influence.

11. The first alternative would require an entity to measure the additional share in the associate's net assets at fair value and recognise the difference with the fair value of the consideration as goodwill. The response from:

   (a) the ARD, ANC, AOSSG, ASBJ and EFRAG members was that this alternative has the benefit of:

      (i) being conceptually consistent with the measurement of an associate at initial recognition.

(ii) recognising goodwill, which is consistent with the build up towards obtaining control. The ARD member added this holds even though the goodwill is recognised as part of the investment in the associate.

(b) the UKEB member was concern over the practical application of this alternative when increases in ownership interest occur frequently. This member urged the Board to further consider the cost and benefits of each alternative.

(c) the AcSB, ANC and EFRAG members was that their stakeholders apply this alternative.

12. The third alternative would require an entity to measure the additional share in the associate's net assets at the fair value of the consideration. The response from:

(a) the KASB, FASB, PAFA and OIC members was that this alternative has the benefit of:

(i) not resulting in the recognition of income or expense; and

(ii) being easy to determine and apply.

(b) the AcSB member was that this alternative is also applied in Canada.

13. The second alternative would require an entity to measure the additional share in the associate's net assets at fair value and recognise the difference with the fair value of the consideration in profit or loss. The fourth alternative would require an entity to measure the additional share in the associate's net assets based on investor's book value of existing share of associate's net assets and recognise the difference in profit or loss. The FASB and PAFA members said both alternatives would result in an immediate recognition of an expense and would be difficult to explain to investors.

14. The AOSSG member reported that one AOSSG jurisdiction said the Board should also address accounting for a dilution of interest in an associate (a deemed disposal), that is, whether the gain or loss should be recognised in profit or loss, other comprehensive income, or equity.

Application questions outside the scope of the project

15. ASAF members were asked for input on application questions with recurrent themes outside the scope of the project.

16. On:

(a) **ownership interests that provide access to benefits**: the AcSB, ARD, AOSSG, FASB and KASB members supported the inclusion of the related application question because of its prevalence and the diversity in practice. The ANC member said the issue is less prevalent in France.

(b) **reciprocal interests**: the AcSB, FASB and KASB members supported the inclusion of the related application question whereas the ANC member said this application question arises infrequently in France.

(c) **the non-conterminous period and uniform accounting policies:** the AcSB, ANC, AOSSG, FASB and KASB members said the Board should consider this application question.

17. The EFRAG member reported mixed views among EFRAG stakeholders on whether the Board should respond to these application questions.

Management Commentary

18. The objective of this session was to share initial feedback from the Board's outreach on the Exposure Draft *Management Commentary* (Exposure Draft) and to hear initial feedback from ASAF members' jurisdictions on the Board's proposals, including on:

(a) the objectives-based approach;

(b) the guidance on long-term prospects, intangible resources and relationships and environmental, social and governance (ESG) matters;

(c) the qualified and unqualified statements of compliance; and

(d) the interaction between the proposals and local reporting requirements and practices.

The context of the project

19. On the context of the project:

(a) the AcSB, ANC and UKEB members said there is uncertainty about the interaction between the work of the proposed International Sustainability Standards Board (ISSB) and the Management Commentary project; and

(b) the UKEB member said the project should be paused until the ISSB is formed, whereas the PAFA member said the debate on management commentary should continue despite the uncertainty about the ISSB.

The objectives-based approach

20. On the objectives-based approach:

    (a) the AcSB member agreed with the proposed approach;

    (b) the AOSSG and ARD members said their stakeholders generally agree that the disclosure objectives reflect the information needs of investors and creditors;

    (c) the ANC member said the project's objectives-based approach is valuable for connecting financial and sustainability reporting;

    (d) the OIC member said the six content areas identify all the important information that should be included in management commentary; and

    (e) the KASB member said his stakeholders considered the Exposure Draft well-designed.

21. On whether the proposals are capable of being operationalised:

    (a) the AOSSG, ARD, EFRAG and KASB members said stakeholders questioned whether the proposals are sufficiently practical;

    (b) the ARD member said some stakeholders expressed a preference for a checklist approach, provided by local regulators; and

    (c) the EFRAG member said some stakeholders considered the objectives-based approach suitable only for well-resourced entities.

22. The AOSSG and ARD members said some stakeholders questioned whether the proposals provide an effective basis for assessing compliance. The ARD member added that some stakeholders questioned whether auditors and regulators would be able to evaluate and challenge management's judgement.

23. The AOSSG, ARD and EFRAG members said some stakeholders expressed concern over the complexity of the three levels of disclosure objectives. Some stakeholders also asked why there are differences between the proposed approach and the approach discussed in the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach.*

Long-term prospects, intangible resources and relationships and ESG matters

24. The Exposure Draft contains proposed guidance on long-term prospects, intangible resources and relationships and ESG matters. On the topics of this guidance:

   (a) the AOSSG and ARD members said most stakeholders agree that the Exposure Draft provides sufficient and appropriate guidance. However, some stakeholders suggested the Board clarify some of the terminology in the guidance and the interaction between the proposals and existing ESG reporting frameworks.

   (b) the EFRAG member said EFRAG has included a number of recommendations in its draft comment letter based on feedback from stakeholders.

   (c) the KASB member said some stakeholders expressed the view that the term 'ESG' should be further explained.

   (d) the OIC member said the proposals could encourage entities to provide better information about intangible resources.

Qualified and unqualified statements of compliance

25. On the proposals for qualified and unqualified statements of compliance:

   (a) the AOSSG member said some stakeholders expressed concern that a requirement to state compliance might discourage entities from adopting the IFRS Practice Statement 1 *Management Commentary* (Practice Statement), while other stakeholders were concerned that such a requirement could lead to entities disclosing too much generic information to claim compliance. Some stakeholders suggested that preparers should be permitted to describe the aspects of the Practice Statement an entity has complied with instead of describing the aspects with which the entity has failed to comply.

(b) the ARD member said some stakeholders questioned whether it is appropriate to include a statement of compliance with non-mandatory guidance. Some stakeholders also questioned whether the terms ‘qualified’ and ‘unqualified’, which are associated with auditing standards, are appropriate labels for the statements of compliance.

(c) the KASB member said some stakeholders expressed concern about the reliability of the proposed statements of compliance.

Interaction with local reporting requirements and practices

26. On the interaction between the Board’s proposals and local requirements and practices:

(a) the AcSB, ANC, ARD, EFRAG, KASB, OIC and UKEB members said the Practice Statement is not used by their stakeholders because local statutory or regulatory requirements apply to preparing management commentary or an equivalent report.

(b) the AcSB and OIC members said the proposals could provide valuable non-mandatory guidance for preparers, in particular for smaller entities.

(c) the AOSSG member said some stakeholders suggested that entities should be exempted from disclosing commercially sensitive information.

(d) the ANC member said there is a need to distinguish between standardised sustainability reporting and broader management commentary, especially if the information is included in a single report.

(e) the EFRAG member said proposed sustainability reporting standards in the EU would focus on the information needs of a wider range of stakeholders than investors and creditors (potentially widening the scope of European requirements compared to the proposals in the Exposure Draft). The member observed that currently in Europe the management commentary is governed by local requirements and added that the proposals could be useful in jurisdictions that lack detailed local requirements.

(f) the PAFA member reported that stakeholders applying the Integrated Reporting framework said they are already providing more information than is required by the Practice Statement, but that stakeholders not applying integrated or sustainability reporting were supportive of the project.

Primary Financial Statements

27. The purpose of this session was to provide ASAF members with an update on the Board's redeliberations of proposals in the Exposure Draft *General Presentation and Disclosures* published in December 2019 and to seek ASAF members' views on the implications of these redeliberations, including any suggestions on how the Board might approach subsequent redeliberations.

28. The AcSB, ANC and UKEB members congratulated the Board on the redeliberations' progress and highlighted the project's importance. ASAF members generally agreed with the approaches taken by the Board during redeliberations, however, some ASAF members expressed concerns.

Subtotals and categories

29. The AcSB, ANC and EFRAG members generally agreed with the proposal to define the 'operating category' as a residual in the statement of profit or loss. The ANC member said the clarification published after the March 2021 Board meeting is helpful because it explains that the operating category is not limited to main business activities and the operating profit or loss subtotal is not designed to be a recurring performance measure. However, the ANC member expressed concerns about how to ensure an entity could provide relevant information in the operating category without removing information about items that are outside its main business activities. The member also asked what entities should do when the operating profit subtotal is the same as the profit before tax subtotal. The EFRAG member was concerned entities might use more management performance measures if operating profit is not defined directly.

30. The ARD, ASBJ and KASB members expressed disappointment because their suggestion on defining the operating category directly was not adopted. The KASB member suggested the Board define the investing and financing category clearly and perform additional outreach or field testing.

31. The ANC member said the profit before financing and income tax subtotal illustrates a tension between a user's need for an improvement in comparability between entities and an entity's need to present a meaningful measure of performance. The member thought that, as a result of defining and requiring the profit before financing subtotal, management might increase the number of management performance measures used to communicate an entity's performance. The member added that there is a fair amount of evidence that suggests that the profit before financing subtotal is not providing incremental value to users.

32. The AOSSG member said that using varied terms would result in different interpretations; for example, the term 'operating activities' defined in IAS 7 *Statement of Cash Flows* as the 'principal revenue-producing activities' and the term 'arising in the course of an entity's ordinary activities' in IFRS 15 *Revenue from Contracts with Customers* are used in similar contexts as 'main business activities', which is the term the Board uses in its proposals. The concept of 'main business activities' should be consistent with the concepts in IAS 7 and IFRS 15, according to the AOSSG member. The member suggested the Board define main business activities clearly and provide guidance on how to identify these activities.

33. The ARD, EFRAG and KASB members suggested the Board discuss the concept of 'main business activities' clearly because this concept affects presentation in the financial statements.

34. The KASB member agreed with the Board's tentative decisions relating to the proposals for classifying fair value gains and losses on derivatives and hedging instruments and foreign exchange differences.

35. The ARD member expressed conditional agreement with the Board's proposal to change the classification of income and expenses from cash and cash equivalents to the investing category rather than the financing category. The member would agree with the classification change if income and expenses were restricted to the items listed in paragraph B34 of the Exposure Draft.

36. The AOSSG, ARD and KASB members disagreed with the proposals in the Exposure Draft to separate integral and non-integral associates and joint ventures and suggested the Board prioritise discussion of these proposals.

Disaggregation

37. The AcSB member suggested the Board prioritise the proposal for unusual income and expenses because it is important to users.

38. The ARD member suggested the Board clarify the definition of unusual income and expenses to improve comparability.

39. The PAFA member said the use of the word ‘unusual’ could create confusion and might require an entity to use judgement to identify its unusual income and expenses. The member suggested the Board provide additional guidance on unusual income and expenses.

Management performance measures

40. The ANC member said the Board is being conservative by not expanding the scope of management performance measures. The ANC member emphasised the Board should explain clearly to the market the reason for maintaining the narrow scope, adding that investors were disappointed at the Board’s proposal to do so. The member said the Board risked ending up with two tiers of performance measures in the financial statements—measures defined in the Exposure Draft as management performance measures (that is, subtotals of income and expenses) and measures not defined in the Exposure Draft. The member was concerned about whether investors could distinguish these measures and asked whether only management performance measures should be in the financial statements and whether the Board should permit entities to apply the requirements for management performance measures in the Exposure Draft to measures not defined.

41. The AcSB member said stakeholders in Canada suggested widening the scope of management performance measures. However, in the member’s view, the Board’s decisions were sensible.

42. The AOSSG member suggested the Board redeliberate and clarify the definition of management performance measures in the near future.

43. The EFRAG member expressed regret that the Board did not expand the scope of the project to include measures based on the statement of financial position and the statement of cash flows because such measures would help complete the picture of an entity’s performance and show how the entity was managed.

44. The KASB member said the mandatory requirement for management performance measures would be difficult to implement in South Korea.

45. The PAFA member said some performance measures have not been incorporated in the scope of management performance measures set out in the Exposure Draft. The member said he would not suggest expanding the scope but suggested the Board provide additional guidance on measures not defined in the Exposure Draft.

Other comments

46. The EFRAG member suggested the Board undertake a comprehensive review of IAS 7 to address not only the issues raised by EFRAG in its comment letter (for example, how a statement of cash flows for financial institutions should look like) but also to address new challenges, such as those that arise from the increased use of cryptocurrencies (for example, the meaning of 'redeeming cash on demand').

47. The ARD member suggested the Board reconsider the relationship between the statement of profit or loss and the statement of cash flows.

48. The UKEB member noted that the Board discussed making significant changes to the proposals and suggested the Board consider whether re-exposure would be necessary when redeliberations have been finalised. The member suggested that, during redeliberations, the Board consider that the proposals need to be right for investors and operational for preparers. The member added, for example, that the Board could assess the cost of applying the proposal for the analysis of expenses to see whether the proposal would be operational for preparers.

49. The ASBJ member said re-exposure is necessary because stakeholders did not appreciate the magnitude of the changes proposed in the Exposure Draft. The member was also concerned the Board will need to revisit proposals once entities with particular main business activities (such as banks and other financial institutions) are considered.

50. The KASB member highlighted the relationship between tentative decisions on disclosure requirements and the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach*. The member suggested the Board delay redeliberations on the topics relating to disclosure requirements in this project until it completes

redeliberations on the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach*.

Rate-regulated Activities

51. The staff:

    (a) provided an overview of the feedback in the comment letters on the Exposure Draft *Regulatory Assets and Regulatory Liabilities*; and

    (b) said detailed analysis of the feedback on the main aspects of the proposed model to account for regulatory assets and regulatory liabilities will be presented at the October 2021 Board meeting.

Agenda Planning

52. The objective of this session was to discuss the proposed topics for the next ASAF meeting, which is scheduled to take place in December 2021. ASAF members agreed with the proposed topics.