IFRS Accounting

Meeting summary

Accounting Standards Advisory Forum

Date **29 September 2022**
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This document summarises a meeting of the Accounting Standards Advisory Forum (ASAF), a group of nominated members from both National Standard-Setters (NSS) and regional bodies involved with accounting standard-setting (regional bodies). The ASAF supports the IFRS Foundation and the International Accounting Standards Board (IASB) in their objectives, and contributes towards the development, in the public interest, of high-quality, understandable, enforceable and globally accepted IFRS Accounting Standards.

ASAF members who attended the meeting

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) UK Endorsement Board (UKEB) Accounting Standards Committee of Germany (ASCG)
The Americas	Group of Latin American Accounting Standard Setters (GLASS)* Canadian Accounting Standards Board (AcSB) Financial Accounting Standards Board, United States (FASB)

* Remote participation via videoconference

Agenda planning and feedback from previous ASAF meetings

1. This session discussed the proposed topics for the next ASAF meeting, which is scheduled to take place on 8–9 December 2022. ASAF members agreed with the proposed topics.

2. In response to a query from the ASCG member, the IASB Executive Technical Director said the staff are investigating implications of jurisdictional adoption of the OECD's Pillar Two Model Rules, which reform international corporate taxation. The topic might be discussed at future ASAF meetings if the IASB decides to consider amendments to IFRS Accounting Standards.

3. The AcSB member said AcSB is conducting research on digital assets and would like to present the results of its research at a future ASAF meeting.

Subsidiaries without Public Accountability: Disclosures

4. The purpose of this session was:

    (a) to provide ASAF members an update on the *Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures* project; and

    (b) to ask ASAF members' views on:

        (i) removing the requirement that for a subsidiary to be eligible to apply the proposed IFRS Accounting Standard (draft Standard) the parent's consolidated financial statements be 'available for public use' (see paragraphs 5–9);

        (ii) the staff's suggested approach for analysing comments received on the proposed disclosure requirements (see paragraphs 10–12); and

        (iii) responding to feedback on the structure of the draft Standard (see paragraphs 13–17).

Parent's consolidated financial statement be available for public use

5. The AcSB, ASBJ and GLASS members agreed with the staff recommending to the IASB it removes the requirement that for a subsidiary to be eligible to apply the draft Standard the parent's consolidated financial statements be 'available for public use'. The AOSSG member reported that five AOSSG jurisdictions also agreed with removing the requirement. These members said removing the requirement would permit more subsidiaries to be eligible to apply the Standard and to benefit from the proposals in the draft Standard. The PAFA member also agreed with removing the requirement from the draft Standard but requested that the IASB provide guidance on the requirement in IFRS Accounting Standards.

6. The ASCG, EFRAG, FASB and UKEB members were neutral on removing or retaining the requirement that the parent's consolidated statements be 'available for public use'. These members said the requirement is not fundamental in the scope of the draft Standard. The AOSSG member said

four AOSSG jurisdictions were also neutral but suggested research on the effects of removing the requirement.

7. The ASCG and UKEB members cautioned against providing guidance on the requirement because any guidance might have unintended consequences for its application in IFRS Accounting Standards. These members said they would not agree with providing this guidance.

8. The KASB member disagreed with removing the requirement on the grounds that there should be consistency between the scope of the draft Standard and IFRS 10 *Consolidated Financial Statements*. The member added that the IFRS Interpretations Committee is best positioned to provide guidance on the requirement.

9. The ARD member suggested research on the effects of removing the requirement, since removing the requirement would substantially expand the scope of the standard.

Responding to feedback on proposed disclosure requirements

10. ASAF members generally agreed with the staff's suggested process for responding to the feedback on the disclosure requirements proposed in the draft Standard.

11. The AOSSG and PAFA members commented on specific aspects of the staff's suggested process, particularly on 'pervasiveness', as one of the factors applied to evaluate the comments. The PAFA member said this factor emphasises the number of comments on a disclosure requirement, which would not be appropriate.

12. On other aspects of the draft Standard:

    (a) the AcSB, GLASS and UKEB members asked how the Standard will be maintained, including its interaction with the *IFRS for SMEs* Accounting Standard.

    (b) the AOSSG member said one AOSSG jurisdiction has asked how the draft Standard will affect the proposals in the *Disclosure Initiative—Targeted Standards-level Review* project and another has recommended consideration should be given on how much weight to give to each factor

    (c) the UKEB member recommended the disclosure requirements in the Standard use the same language as IFRS Accounting Standards to avoid confusion.

    (d) the EFRAG member suggested the IASB consider a corridor approach to the disclosure requirements in the draft Standard. That is, the disclosure requirements should not be less than the disclosures required in the *IFRS for SMEs* Accounting Standard (floor) and should not be more than those required in IFRS Accounting Standards (cap).

Responding to feedback on the structure of the draft Standard

Disclosure requirements in IFRS Accounting Standards replaced by the draft Standard

13. On the question of whether to retain Appendix A of the draft Standard, listing the disclosure requirements in IFRS Accounting Standards that would be replaced by the Standard:

    (a) the ARD and GLASS members said retaining Appendix A as part of the Standard would facilitate stakeholders' understanding of the Standard. The AOSSG member, reporting the comments from seven AOSSG jurisdictions, and the KASB member said that omitting Appendix A might confuse preparers of financial statements.

    (b) the UKEB member said Appendix A would address potential legal challenges where IFRS Accounting Standards are part of a jurisdiction's law. An eligible subsidiary applying the draft Standard would need to be exempted from providing disclosures required by other IFRS Accounting Standards, and Appendix A would tell what exemptions are available.

    (c) the KASB member said Appendix A would complement the disclosure requirements in the Standard because it clearly identifies disclosure requirements in other IFRS Accounting Standards that do not apply.

14. The AOSSG member reported that one AOSSG jurisdiction said Appendix A is not relevant to the application of the draft Standard and it complicates application of the Standard.

15. Some ASAF members agreed that the information provided in Appendix A is useful, but did not agree the information should be part of the Standard:

    (a) the AOSSG member reported that:

        (i) one AOSSG jurisdiction was concerned that Appendix A could be viewed as a list of disclosure requirements that eligible subsidiaries are prohibited from applying, and this could impede fair presentation in situations where disclosure is important for users of subsidiaries' financial statements. The jurisdiction suggested that this information could be included in the Basis for Conclusions on the Standard.

        (ii) another AOSSG jurisdiction said retaining Appendix A would require updating it each time the IASB amends or introduces new disclosure requirements in IFRS Accounting Standards, therefore consuming IASB resources.

    (b) the ACsB, ASCG and AOSSG members, reporting the comments from two AOSSG jurisdictions, said the IASB could alternatively list disclosure requirements replaced by the draft Standard in implementation guidance or education material. The inclusion of implementation guidance or education material would eliminate the need to update the information and therefore save IASB's time and resources.

16. On other comments on Appendix A:

(a) the AcSB member said that Appendix A would only be useful when an eligible subsidiary applied the draft Standard for the first time.

(b) the FASB member said that when the IASB issues the Standard, it will know which disclosures will not be required and making this information available to stakeholders would be beneficial. The member added that accounting firms are likely to produce lists similar to Appendix A of the draft Standard, if the IASB decides to omit Appendix A from the Standard.

(c) the PAFA member said that its stakeholders have a neutral view on whether Appendix A should be retained in the Standard as an appendix and whether Appendix A is necessary for applying the Standard.

Disclosure requirements that remain applicable in other IFRS Accounting Standards

17. Four alternatives were discussed on how to respond to the feedback on the footnotes setting out disclosure requirements that remain applicable in other IFRS Accounting Standards,:

(a) ASAF members overall disagreed with removing the footnotes (Alternative D) because there is a risk of overlooking disclosure requirements if the information in the footnotes is removed.

(b) ASAF members had mixed views of the other alternatives:

(i) the FASB member preferred listing the information contained in footnotes, either in an appendix to the Standard (Alternative A), or in the main body of the Standard (Alternative B), because both alternatives make the information available in a single place and avoid the risk of overlooking the disclosure requirements. The AOSSG member reported that three AOSSG jurisdictions expressed a similar view.

(ii) the AOSSG member said one AOSSG jurisdiction preferred Alternative A because it lists in one place all disclosure requirements in other IFRS Accounting Standards that remain applicable.

(iii) the EFRAG, GLASS and UKEB members prefer Alternative B because, in their view, Alternative B would ease application of the Standard. The AOSSG member reported that three AOSSG jurisdictions expressed a similar view.

(iv) the AOSSG member said one AOSSG jurisdiction suggested references to disclosure requirements be presented below each subheading in a rubric without paragraph numbering (variation on Alternative B).

(v) the ANC and ARD members expressed preference for either Alternative B or for retaining the footnotes as proposed in the draft Standard (Alternative C).

Post-implementation Review of IFRS 9—Impairment

18. The purpose of this session was for ASAF members to share their views on applying the impairment requirements in IFRS 9 *Financial Instruments* and on matters that the IASB might consider in the post-implementation review (PIR) of these requirements.

19. ASAF members were asked whether:

    (a) there are fundamental questions on the clarity and suitability of the objectives or principles in the impairment requirements—that is, if there are fatal flaws in the requirements;

    (b) the benefits to investors arising from applying the requirements are significantly lower than expected; and

    (c) the costs of applying some or all of the requirements and auditing and enforcing their application are significantly greater than expected.

20. The AOSSG, ARD, ASCG, GLASS, KASB, PAFA and UKEB members said that the impairment requirements in IFRS 9 generally are working as intended. They said the expected credit losses (ECL) model in IFRS 9 results in more timely recognition of credit losses than the incurred loss model in IAS 39 *Financial Instruments: Recognition and Measurement* and that it has helped remedy the problem of recognising loan loss allowances 'too little, too late'. Some members also said that the principle-based requirements enable entities to respond to changes in economic conditions better than with the impairment model in IAS 39. For example, entities were able to adjust their forecasts and determinations of expected credit losses to reflect the challenging economic environment during the covid-19 pandemic using the ECL model.

21. ASAF members suggested the IASB consider these topics as part of the PIR:

    (a) *Significant Increases in Credit Risk (SICR)*—ASAF members said that how entities determine SICR involves the significant judgements and subjective assessments and results in diversity in practice. To help entities apply the requirements more consistently, the members suggested the IASB consider issuing application guidance and illustrative examples for areas including (i) factors to consider in assessing deterioration in the credit quality of a financial instrument that might trigger SICR; and (ii) the simplification related to low credit risk.

    (b) *Incorporation of forward-looking information in measurement of ECL*—ASAF members said incorporating forward-looking information in the measurement of ECL is challenging and results in diversity in practice. Entities vary in their use of forward-looking information such as macro-economic inputs and other assumptions about the future. For non-financial institutions or jurisdictions, the availability of qualitative and sufficiently detailed forward-looking information is often limited. Entities use a variety of modelling techniques and scenarios, and some entities have increased their use of post-model adjustments (PMAs),

particularly during the covid-19 pandemic, to incorporate forward-looking information into ECL. ASAF members suggested the IASB consider providing application guidance on what forward-looking information is required to be incorporated when measuring ECL, including guidance about the use of PMAs.

(c) *Credit risk disclosures in IFRS 7*—ASAF members said they observe a lack of consistency in entities' credit risk disclosures, which affects the comparability of information about ECL. Areas of diversity include (i) inconsistencies in the amount of detail disclosed; (ii) insufficient information about changes in ECL amounts; and (iii) the lack of entity-specific information provided through disclosures about the inputs and assumptions underpinning PMAs. Some ASAF members attributed the diversity to the disclosure objectives being too principle-based and suggested the IASB add more specific disclosure requirements in IFRS 7 to achieve more consistency in the information entities provide.

The FASB member said feedback on the disclosure requirements in US Generally Accepted Accounting Principles (GAAP) also highlighted the lack of comparability in disclosures. The FASB is adding disclosure requirements for gross write-offs, modifications and restructuring of troubled debt.

(d) *Application of the ECL model to intercompany loans*—ASAF members said the costs of applying the ECL model to intercompany loans, including performing scenario analysis, exceed its benefits. They suggested the IASB consider simplifications of the impairment requirements for estimating ECL for these financial instruments.

(e) *Definition of credit losses*—ASAF members said some stakeholders are concerned by the definition of credit losses referring to all cash shortfalls, instead of being limited to those caused by credit deteriorating events. They said this requirement might lead to a significant increase in ECL and disruption in practice in accounting for transactions such as payment holidays and lease concessions.

(f) *Financial guarantees and loan commitments*—ASAF members said applying the ECL model to financial guarantees is challenging because the requirements result in different outcomes for economically similar transactions. They said that the requirement lacks sufficient application guidance, for example, about circumstances when collateral and other credit enhancements are considered part of the contractual terms to a financial instrument.

(g) *Other matters*—Some ASAF members suggested other matters to be considered in this PIR, including (i) the effect of modification of financial instruments in measurement of ECL; and (ii) of the relationship between the ECL model and the accounting for business acquisitions when an entity applies IFRS 3 *Business Combinations*.

22. With respect to the benefits to investors from applying the impairment requirements in IFRS 9, ASAF members said there is no evidence suggesting that the benefits are much lower than expected, noting that, in some jurisdictions, investors have not yet been consulted for their feedback. Some ASAF members said the inclusion of forward-looking information in ECL calculations makes them more useful for decision-making. On the other hand, some ASAF members noted that the concerns described in paragraph 21 about the extent of judgement and estimation involved and lack of consistent information provided through credit risk disclosures might reduce their usefulness.

23. ASAF members said that overall, the costs of applying, auditing and enforcing the requirements are not significantly greater than expected. However, the members said, implementation costs—such as the costs of designing and maintaining modelling techniques—were significant, in part because entities have to use so much judgement. Entities also had to pay increased auditing costs. ASAF members said that non-financial institutions incur significant costs in applying the ECL model, particularly incorporating forward-looking information in ECL (see paragraph 21(b)) and applying the ECL model to intercompany loans (see paragraph 21(d). These costs are present despite the simplified approach designed to assist implementation of the requirements by these entities.

Rate-regulated Activities

24. The purpose of this session was:

    (a) to provide an update on the redeliberations of the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (Exposure Draft); and

    (b) to seek ASAF members' views on whether the IASB's tentative decisions to date on scope and total allowed compensation help address stakeholders' concerns about the proposals.

Total allowed compensation

25. ASAF members overall welcomed the IASB's tentative decision on regulatory returns on assets not yet available for use. This tentative decision would allow an entity to reflect in profit or loss during the construction period regulatory returns on an asset not yet available for use, if the entity has an enforceable right to those returns:

    (a) the ANC and EFRAG members said they would like to see the application guidance that the IASB tentatively decided to develop for entities to assess whether their rights to these regulatory returns are enforceable; and

    (b) the AcSB member said the IASB should clarify how that tentative decision interacted with the requirements of IAS 23 *Borrowing Costs* to ensure that the capitalised borrowing costs in the qualifying asset are not double-counted.

26. ASAF members generally agreed with the IASB's tentative decision to focus the application guidance of the final Accounting Standard (Standard) on differences in timing instead of specifying the components of total allowed compensation:

    (a) the ARD member suggested the Standard should include examples illustrating the most common differences in timing that arise from the various regulatory schemes.

    (b) the EFRAG member said it is unclear how the guidance would be articulated without the list of the proposed components for total allowed compensation. The staff said that the Standard would not prescribe the components of total allowed compensation but that the staff expected the Standard still to use the proposed components of total allowed compensation as the main source of differences in timing.

Scope

27. ASAF members generally agreed with the IASB's tentative decisions on the scope of the Standard:

    (a) the ANC member said that, although the ANC can understand the IASB's tentative decision not to exclude from the scope of the Standard regulatory assets or regulatory liabilities related to financial instruments within the scope of IFRS 9 *Financial Instruments*, the ANC would have preferred the IASB to exclude these instruments from the scope of the Standard to avoid unintended consequences.

    (b) the ANC member also raised the question of a possible conflict with the tentative decision that for a regulatory asset or a regulatory liability to arise, it is necessary that differences in timing originate from, and reverse through, amounts included in the regulated rates that an entity accounts for as revenue in accordance with IFRS 15 *Revenue from Contracts with Customers*. The member suggested that this latter tentative decision would exclude income arising from the requirements of other IFRS Accounting Standards from the scope of the Standard. The member requested the IASB to clarify this matter. The staff explained that the model had been developed to supplement the information that entities provide applying IFRS 15. However, some respondents asked the IASB to clarify whether the model could also be used to supplement the information that entities provide applying IFRS 9 or IFRS 17 *Insurance Contracts*. The work undertaken by the staff in relation to IFRS 9 has not identified examples of situations in which a regulatory asset or a regulatory liability would arise from financial instruments that have a regulated rate. The staff said that a similar analysis will be undertaken for IFRS 17. Once this analysis is complete, the IASB might be able to confirm whether entities that use the model would only supplement information arising from applying IFRS 15. If the IASB reaches this conclusion it would not need to exclude financial instruments or insurance contracts from the scope of the Standard.

(c) the AcSB member suggested the IASB exclude contracts within the scope of IFRS 17 from the scope of the Standard to save entities the costs, including audit costs, of assessing whether interactions between the Standard and contracts within the scope of IFRS 17 exist.

(d) the ARD member reported that a few of its stakeholders said regulatory assets or regulatory liabilities could arise from financial instruments and the IASB should conduct further research or outreach to gather more evidence on this matter.

(e) the EFRAG member said its stakeholders had mixed views on the IASB's tentative decision not to exclude regulatory assets or regulatory liabilities related to financial instruments within the scope of IFRS 9 from the scope of the Standard. The member suggested the IASB strengthen the arguments supporting this tentative decision and, if the intention of the model is to supplement only IFRS 15, the IASB should clarify this point because some stakeholders think the model is broader.

(f) the ASBJ member said that ASBJ was still uncertain about which entities would be within the scope of the Standard and suggested the IASB provide further clarifications of the intended scope.

Other matters

28. The ASCG member said it is important to emphasise that the Standard will not change the compensation to which entities are entitled even if that is based on a measurement basis that differs from that required by IFRS Accounting Standards. The member added that its local accounting requirements have changed and now require entities to recognise some regulatory balances such as regulatory assets relating to inflation.

29. The UKEB member expressed a concern about the potential effect of inflation on the regulatory capital base and said it is important the IASB investigate the accounting implications.

30. In response to a query from the EFRAG member, the staff said that in cases when entities are subject to cost-based schemes that determine regulated rates based on estimates that are trued up to actuals it would be reasonable to expect these entities to have a higher population of regulatory assets or regulatory liabilities than entities subject to incentive-based schemes. However, the staff emphasised that an entity's population of regulatory assets and regulatory liabilities would depend on the terms of its regulatory agreement.

31. The ASBJ member said that ASBJ would prefer the IASB to develop a model more similar to the requirements in US GAAP.

UKEB research on goodwill

32. The UK Endorsement Board (UKEB) presented its research on subsequent accounting for goodwill. The research was published in September 2022 in the UKEB's report *Subsequent Measurement of Goodwill: A Hybrid Model*.

33. The objective of the UKEB's research is to contribute to the international debate on the subsequent measurement of goodwill by exploring the practical implications of a potential transition to an amortisation model. The research contributes to the IASB's project on Goodwill and Impairment.

34. The research considered:

    (a) the effect of reintroducing amortisation of goodwill on reporting outcomes, financial stability and audit processes, systems and costs; and

    (b) the practical feasibility of transition to an amortisation model, including the feasibility of estimating a useful life of goodwill.

35. ASAF members discussed the UKEB's research, including asking clarifying questions. ASAF members also shared their views on the subsequent accounting for goodwill.