Summary note of the Accounting Standards Advisory Forum

Held on 7 December and 8 December 2017 at the IASB office, 30 Cannon Street, London.

This note is prepared by staff of the International Accounting Standards 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's® website.

ASAF members attending

Andreas Barckow	Accounting Standards Committee of Germany (DRSC)
Christine Botosan	Financial Accounting Standards Board (FASB)
Kim Bromfield	South African Financial Reporting Standards Council (SAFRC)
Patrick de Cambourg	Autorité des normes comptables (ANC)
Rodrigo Andrade de Morais	Group of Latin American Standard-Setters (GLASS)
Tommaso Fabi	Organismo Italiano di Contabilità (OIC)
Linda Mezon	Accounting Standards Board of Canada (AcSB)
Christina Ng	Asian-Oceanian Standard-Setters Group (AOSSG)
Yokio Ono	Accounting Standards Board of Japan (ASBJ)
Kris Peach	Australian Accounting Standards Board (AASB) / New Zealand Accounting Standards Board (NZASB)
Andrew Watchman	European Financial Reporting Advisory Group (EFRAG)
Lin Zhu	China Accounting Standards Committee (CASC)

Primary Financial Statements

1. ASAF members discussed the papers that had been discussed by the International Accounting Standards Board (Board) at its November 2017 meeting. The papers presented considered:

   (a) introducing additional defined subtotals in the statement(s) of financial performance, ie 'profit before investing, financing and income tax' and 'profit before financing and income tax'.

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(b) an ‘income and expenses from investments’ category presented between these two subtotals and a ‘finance income and expenses’ category presented below the ‘profit before financing and income tax’ subtotal.

(c) better ways to communicate other comprehensive income (OCI).

Subtotals in the statement(s) of financial performance—general comments

2. Most ASAF members were generally supportive of introducing additional defined subtotals in the statement(s) of financial performance.

3. The AcSB, EFRAG and FASB members supported the Board’s approach to focus initially on non-financial entities. However, the EFRAG member cautioned that bringing the excluded entities back into the Board’s discussions will be challenging. The AcSB member encouraged the Board to test its proposals on entities in various industries, eg software companies and oil and gas companies, and consider the relevance of the proposals within wider corporate reporting.

4. ASAF members commented on the boundary between ‘income and expenses from investments’ and ‘finance income and expenses’, including the Board’s tentative view that income and expenses from cash and cash equivalents should be presented as ‘finance income and expenses’ as a proxy for income from cash and temporary investments of excess cash (‘excess cash’):

   (a) the FASB and SAFRC members said that the categories would be more intuitive if ‘income and expenses from investments’ covered assets and ‘finance income and expenses’ covered liabilities; ie income and expenses related to cash and cash equivalents should be presented as ‘income and expenses from investments’. The FASB member also said the Board should not attempt to define ‘excess cash’, because it is very difficult to define and added that income from cash and cash equivalents meets the proposed definition of ‘income and expenses from investments’.

   (b) the EFRAG member encouraged the Board to explore in a Discussion Paper whether cash and cash equivalents would be a suitable proxy for an entity’s excess cash or whether instead a principle could be developed to describe an entity’s treasury activities more broadly.

5. The ASBJ member cautioned that the Primary Financial Statements project should focus only on presentation and not affect any recognition or measurement requirements in IFRS Standards.

Income and expenses from investments

6. Some ASAF members expressed support for introducing an ‘income and expenses from investments’ category in the statement(s) of financial performance. The FASB member said she agreed that this category should include income and expenses from those items that investors tend to value separately from operations. The CASC member expressed support for a principle-based approach to defining income and expenses from investments, but said the proposed definition and accompanying examples need further clarification.

7. The AOSSG, AASB/NZASB and SAFRC members said the interaction between the ‘income and expenses from investments’ category in the statement(s) of financial performance and the ‘investing’ category in the statement of cash flows is unclear. The AOSSG member said the categories should be aligned.

8. The AcSB, DRSC and FASB members encouraged the Board to explore labelling the subtotal above the ‘income and expenses from investments’ category as ‘operating profit’ in a Discussion Paper, whereas:

   (a) the AASB/NZASB and CASC members preferred the label ‘profit before investing, financing and income tax’; and

   (b) the ASBJ and ANC members said operating profit should be defined directly—rather than as a residual—and the ASBJ member added that operating profit should reflect an entity’s sustainable performance.

9. ASAF members had mixed views on the presentation of the share of profit or loss of associates and joint ventures:

   (a) the AcSB, DRSC and AASB/NZASB members said that the share of profit or loss should be presented above ‘profit before investing, financing and income tax’ if the associates and joint ventures are integral to the entity’s operations, but should be presented as ‘income and expenses from investments’ if the associates and joint ventures or not integral to the entity’s operations; and

(b) the ASBJ, CASC, FASB and SAFRC members said the share of all associates and joint ventures should be presented in a single location.

10. Some ASAF members said the Board should explore various approaches and propose guidance for distinguishing between integral and non-integral associates and joint ventures in a Discussion Paper.

Finance income and expenses

11. ASAF members had the following comments on the proposed definition for 'finance income and expenses' (ie the 'I' in EBIT):

(a) the ASBJ member said they have observed diversity in the application of the definition of cash and cash equivalents in Japan, which reduces comparability between entities.

(b) the EFRAG member said the 'other finance income' and 'other finance expense' line items make the definition of 'finance income and expenses' circular and said those line items should be described more directly.

(c) the AOSSG member commented that users would not support the 'I' in EBIT being broader than interest expenses and questioned whether any foreign currency gains and losses and fair value gains and losses should be included.

(d) the EFRAG member supported simplifying the definition by removing the concept of 'capital structure'. However, the FASB member preferred defining 'finance income and expenses' in terms of assets and liabilities, rather than income/expenses or financing activities.

(e) the SAFRC and ANC members commented that when a Standard requires discounting of a liability to reflect the time value of money, the unwinding of the discount should always be presented as finance expenses. However, the FASB member said the unwinding of the discount on a decommissioning liability should not be part of finance expenses.

12. The AASB/NZASB member said entities should have the option to disclose the five line items comprising finance income/expenses in the notes, rather than presenting them separately in the statement(s) of financial performance.

Better ways to communicate other comprehensive income (OCI)

13. ASAF members, except for the ANC and SAFRC members, did not support relabelling the two categories of OCI or introducing a new subtotal between the two categories. Some ASAF members said relabelling OCI without clarifying the distinction between profit or loss and OCI, and without clarifying the principles for recycling, would only cause confusion.

14. Although the Board's tentative view is that it should not develop investor education materials on OCI, some ASAF members were in favour of this idea.

15. The EFRAG member suggested the Board should consider improving the disclosure of accumulated OCI amounts in equity.

Disclosure Initiative – *Definition of Material* (Proposed amendments to IAS 1 and IAS 8)

16. The purpose of this session was to elicit members' views on the proposals in the Exposure Draft, *Definition of Material—Proposed amendments to IAS 1 and IAS 8*. The Board published the Exposure Draft in September 2017 and the comment period closes on 15 January 2018.

17. Some ASAF members commented that the proposal to change 'could influence the economic decisions' to 'could reasonably be expected to influence decisions' in the definition of material is helpful, as it would give preparers more confidence in applying materiality judgements in practice.

18. Most ASAF members expressed concerns with the reference to 'obscuring' information in the proposed definition of material. They thought that including the concept of obscuring information in the definition of material could make it difficult to apply the definition in practice. This is because of the level of judgement involved in determining whether information is obscured. However, there were differing views on how to address the concern:

    (a) some ASAF members (FASB/EFRAG/DRSC/OIC/AcSB) suggested removing the reference to 'obscuring' in the proposed definition. The AcSB and EFRAG members stated that, although it is important not to obscure information, the need to avoid obscurity relates to how material information is communicated rather than to whether information is material. The AcSB member suggested that the Board should consider making the notion of not obscuring information prominent in IAS 1 rather than including it in the definition of material. In addition, the FASB member said that the issue of obscuring information is irrelevant in a digital reporting environment because computers are efficient at finding information regardless of where it is located.

(b) the AOSSG and AASB/NZASB members suggested that, to assist in the application of the proposed definition of material, the Board should provide additional guidance on how information might be obscured. The AOSSG member further suggested that information might be obscured when it is inappropriately aggregated with dissimilar information or eclipsed by other information.

19. The SAFRC member thought the proposed revisions to the definition of material were helpful. In particular, the member commented that the reference to ‘obscuring’ would encourage preparers to give more thought to the presentation of financial statements and to avoid treating the preparation of financial statements as a compliance exercise. The member supported additional guidance on how to apply ‘obscuring’, to address concerns raised by other members.

20. The CASC member noted that the proposed revisions to the definition of material are minor and suggested that the Board should not change the definition at this time. The member recommended that the Board consider any revisions and associated impacts in the other Disclosure Initiative projects.

21. The EFRAG member suggested that the Board should define material simply and directly by removing references to ‘omitting’ and ‘misstating’ from the proposed definition. The member noted that, as is the case for their views on ‘obscuring’ information, these concepts relate to how material information is communicated rather than to whether information is material. The member also urged the Board to ensure that the definition can be applied in the various contexts in which materiality is used in IFRS Standards.

22. Some members made additional suggestions to improve the application of the definition of material. Specifically:

(a) The DRSC member stated that the Board should consider clarifying:

(i) whether the focus of the definition of material is on the relevance of information or on its presentation;

(ii) whether 'material' is the opposite of both 'immaterial' and 'not material'; and

(iii) how the concept of materiality for financial information compares with materiality for non-financial information.

(b) The ASBJ member stated that the Board should not mix the importance of a piece of information and the context in which that information is provided.

(c) The FASB member encouraged the Board to:

(i) consider potential translation issues with the reference to 'could' in the proposed definition as it captures a broader range of information than 'would'. The member noted that the FASB is reverting to 'would' in its definition of material because of the problems with the application of 'could'.

(ii) assess how the increased use of electronic analysis of information could affect the definition of material. The member commented that increased efficiency in processing pieces of information electronically might result in *less* material information influencing user decisions. In other words, electronic consumption of financial information might lower the level of materiality based on the proposed definition.

Disclosure Initiative – *Principles of Disclosure*

23. At this meeting, ASAF members received a high-level summary of comments received on the Discussion Paper, *Disclosure Initiative—Principles of Disclosure*. The Board published the Discussion Paper in March 2017 and the comment period closed in October 2017.

24. ASAF members provided feedback on:

(a) technology and digital reporting considerations;

(b) development of disclosure principles;

(c) standards-level review of disclosures; and

(d) project direction and focus.

Technology and digital reporting considerations

25. ASAF members generally think the Board should consider the effect of digital reporting on the disclosure problem. However, some ASAF members expressed concerns that digital reporting may contribute to an increase in disclosure overload. This is because digital reporting could lead to companies providing more information to users.

26. The EFRAG member advised the Board to think about addressing the disclosure problem in a way that would work for both technologically sophisticated stakeholders and other stakeholders. The SAFRC member said that the Board should develop clear disclosure principles for paper-based reporting, while bearing in mind the impact of digital reporting.

27. The AOSSG member said that, it is difficult for stakeholders to express views on the effect of digital reporting. This is because stakeholders do not have a clear picture of what digital reporting means. The member suggested that the Board focus on XBRL.

28. The ANC member thought that consideration of digital reporting needs to include the big data environment and user access to information on a transactional basis. He added that there are other types of technology, which enable faster circulation of information to users.

Development of disclosure principles

29. The SAFRC and DRSC members said that the Board should develop principles for the Board to use in developing and organising disclosure objectives and requirements in IFRS Standards.

30. The DRSC member said that preparers are becoming less willing to make judgments on what information may be relevant to users. Instead, they prioritise efficiency in the preparation of their financial statements. The member expressed doubts over the

likely effectiveness of any attempt by the Board to address the behavioural aspects of the disclosure problem and favoured the development of principles for the Board to use in standard-setting.

31. The AcSB member expressed the view that developing disclosure principles for either the Board or preparers would not change practice. This is because preparers and auditors mainly follow requirements in individual IFRS Standards when preparing and auditing financial statements.

Standards-level review of disclosures

32. Some members expressed the view that the Board should prioritise a standards-level review of disclosure requirements. The SAFRC member noted that the comment letters demonstrated varying stakeholder views on the appropriate path to undertaking a standards-level review. Some stakeholders think standards-level review should be prioritised while other stakeholders think the Board should *first* develop disclosure principles *then* perform a standards-level review. The member thought the Board could address these differences by using a hybrid approach. That is, while the Board is developing disclosure principles, a few Standards may be reviewed in testing the effectiveness of those principles. The member added that there is diversity in stakeholder views on the usefulness of some disclosure requirements, for example, in IFRS 13 *Fair Value Measurement*. She thought that resolving this may require consideration of the overall principles and objectives of disclosures.

Project direction and focus

33. ASAF members advised the Board to define clearly the project's aims and key deliverables. The DRSC member noted that there is potentially a wide expectation gap between the Board's intentions and stakeholder expectations with respect to the outcomes of the project. This is because the problem the Board is trying to solve is unclear. The EFRAG member suggested that the Board should consider undertaking a comprehensive diagnostic study of stakeholders' expectations about what information should be included in financial statements.

34. The AcSB member said their outreach activities indicated that users obtain about 10-20% of their information from the financial statements and management discussion and analysis (MD&A) sections of the annual report. Therefore, she thinks the Board should consider, in this project, ways in which to increase the relevance of financial

statements. The member added that there appears to be a general lack of awareness about the extent to which non-financial information is audited. Some users assume that financial information and non-financial information have the same level of assurance. She urged the Board to consider educational activities to clarify the boundaries of financial statements.

35. The ASBJ member noted that their stakeholders want the Board to clarify early on in the project whether the project deliverables will be in mandatory or non-mandatory guidance.

Post-implementation Review of IFRS 13 *Fair Value Measurement*

36. At this meeting, ASAF members received an overview of the feedback received in response to the Request for Information (RFI) for the Post-implementation Review (PIR) of IFRS 13 *Fair Value Measurement* (IFRS 13). ASAF members commented on the RFI feedback and provided advice on how the Board could respond to that feedback.

37. ASAF members agreed with the feedback received on the RFI that IFRS 13 is generally working well in practice.

38. ASAF members recommended that the Board should do more work on disclosures (AASB/NZASB, AcSB, CASC, DRSC, EFRAG). Some ASAF members stated that the future work on the Disclosure Initiative, specifically the Principles of Disclosure project and the future application of the Practice Statement 2: *Making Materiality Judgements* should be considered when reviewing disclosure issues relating to IFRS 13. The AcSB member suggested that the disclosures required by IFRS 13 could be good examples for the Principles of Disclosure project to review.

39. The FASB member commented that investors' suggestions on IFRS 13 disclosures were consistent with feedback the FASB received in its PIR. The FASB is considering whether to add requirements to disclose gains and losses for Level 1 and Level 2 fair value measurements and whether to require disclosure of weighted averages for unobservable inputs. The FASB member also noted that the FASB is simplifying reconciliation requirements for private entities, but is keeping the full reconciliation requirements for public entities because investors find the reconciliation useful.

40. ASAF members recommended that the Board continue work on a solution to the unit of account or 'PxQ' issue—how to measure fair value when Level 1 inputs do not correspond to the unit of account (AcSB, DRSC, EFRAG, SAFRC). ASAF members indicated that while this issue is not common in practice, it is material when it does occur. ASAF members commented that finding a solution for this issue would require more research. The DRSC member recommended the Board should consider allowing the investments to be measured as a single unit of account and requiring disclosure of a reconciliation of that amount to the result of a PxQ calculation. Other members recommended that the Board consider looking into more examples to identify what factors might cause differences from a PxQ calculation. The EFRAG member stated that the issue should be addressed at the point of recognition. The OIC member stated that in 2014, OIC reviewed over 200 public offers and noted a significant difference between PxQ just before the transaction and the subsequent price paid. The OIC suggested, but could not verify, that the difference is due to a control premium, not an overpayment.

41. Other RFI topics include the application of the highest and best use for non-financial assets, application of judgement, fair value measurement of biological assets and unquoted equity instruments. Many ASAF members advised the Board not to consider further work on those topics immediately. The CASC member commented that the stakeholders in their jurisdiction would like more guidance on assessing whether markets are active and on measuring the fair value of biological assets.

Wider Corporate Reporting

42. The purpose of this session was to seek ASAF members' views on the Wider Corporate Reporting (WCR) project which the Board decided to add to its standard-setting agenda at its meeting in November 2017. Specifically, the Board's decisions were to revise and update IFRS Practice Statement *Management Commentary* (MCPS) issued in 2010, but to limit the Foundation's interest in WCR to the provision of other financial information for users as defined in the current *Conceptual Framework*. ASAF members were provided with an update on project developments since it was last discussed at the July 2017 ASAF meeting and were asked for comments on the project, including its scope.

43. Most ASAF members supported the Board’s decision to revise and update the MCPS, with the following views:

(a) the DRSC member highlighted that there was demand for the Board to do ‘something’, but limited articulation of what that ‘something’ should be. He was of the view that updating and revising the MCPS alone would be perceived by stakeholders as the Board doing the bare minimum.

(b) the AASB/NZASB member acknowledged that the MCPS describes information that is relevant to users as defined in the *Conceptual Framework*. She considered that the non-mandatory approach was appropriate at this stage, but felt that there may ultimately be a case for mandating in certain areas, such as ‘risk’.

(c) the ANC member broadly agreed with the view that WCR had grown in prominence and importance and acknowledged that the linkage to the financial statements puts this within the Board’s remit, though he expressed the need for caution in dealing with lower quality non-financial information.

(d) the AcSB member was of the view that revising the MCPS gave the Board an opportunity to reflect best practice and prompt jurisdictions to consider whether national practice was living up to global standards. Even if the MCPS remained non-mandatory and was not adopted itself in jurisdictions, it could still influence jurisdictions to revise their own similar guidance or requirements to reflect the revisions made in the MCPS.

(e) the AOSSG member supported the Board’s decision as he believed that it would complement traditional financial statements by placing greater emphasis on long-term value creation.

(f) the CASC member said that while the Board was best placed to determine the link between narrow and wider financial reporting, there was a need to limit the scope of revision to IFRS requirements.

44. The ASBJ member did not support the Board’s decision to revise and update the MCPS, preferring that the Board focus on financial statements. If the Board were to do so, however, he recommended that the revised language be sufficiently general to

accommodate various types of initiatives and not focus on a framework developed by one entity.

45. ASAF members also provided suggestions for the Board to consider in moving the project forward:

(a) the DRSC member said that it is important for the Board to manage stakeholder expectations by clearly communicating the issue the Board has identified, why the Board thinks it is in a position to address the issue and how it plans to address the issue.

(b) the same member suggested working more closely with the participants in the Corporate Reporting Dialogue with the aim of bringing their respective frameworks closer together, and to look more widely at where financial reporting was impacted, including the work of the Financial Stability Board's Task Force on Climate-related Disclosures.

(c) the AASB/NZASB member highlighted the importance of changes that have concrete impact on financial statements before considering broadening the scope. She believed that adopting a 'step-approach' would provide useful guidance on establishing the linkage between financial and non-financial reporting, as well as developing an overarching framework in WCR.

(d) the ANC member cautioned against creating an unintended perception that the Board is undertaking work that is much larger and ambitious than it intends to achieve through revising and updating of the MCPS.

(e) the AcSB member viewed this as an opportunity to raise the bar in global reporting and therefore, she argued that the focus of the project should be on promoting best practice rather than setting minimum requirements.

46. Several ASAF members commented on the current non-mandatory status of the MCPS:

(a) the DRSC member highlighted the overlap with the European Union's Non-Financial Reporting Directive.

(b) the AASB/NZASB member supported the MCPS remaining as non-mandatory, but felt that some areas at least could become mandatory, citing reporting of risk and intangible assets as examples.

(c) the ANC member pointed out that if the MCPS were to be mandated, there first should be consensus from relevant governing authorities. Similarly, the AcSB member recommended that the Board liaise with relevant jurisdictions if the guidance was to be authoritative.

(d) the EFRAG member noted that the MCPS would be unlikely to be endorsed under the current law in the European Union whether or not it was mandated by the IASB.

47. Other comments from ASAF members included:

(a) given the overlap with other projects on the Board's agenda, such as principles of disclosure, the AASB/NZASB member suggested collaboration between related project teams.

(b) the same member noted that New Zealand has commenced research into WCR practices in New Zealand.

(c) the ANC member said that extending the quality of financial information to WCR would be challenging, and would need to be undertaken with great caution, given the difficulty of qualifying other information including a greater challenge to audit.

(d) the EFRAG member said that emphasising the importance of linkage in the MCPS could affect the content of the financial statements as well as management commentary. He noted that there is a strong demand for leadership in this area.

(e) the CASC member supported the MCPS remaining principles-based.

Academic Liaison

48. The purpose of this session was to gather information from members about their experience in liaising with academics, and their views on whether the activities they engaged in with academics would work in the broader international context of the Board.

49. Members explained their academic liaison activities. Many activities are common to a number of members:

    (a) A research forum or other events organised by a member and/or attended by a mix of academics and non-academics (AcSB, ANC, AASB, FASB, EFRAG).

    (b) An academic advisory group (AcSB, FASB, AASB, EFRAG, OIC).

    (c) The AOSSG member explained that China's Advisory Committee includes members from academics backgrounds as an alternative to having a specific academic advisory group.

    (d) A dedicated section of their website to communicate with academics and/or a newsletter aimed at academics (AASB, CASC, FASB).

    (e) An academic fellow/intern/post-doc programme (AASB, FASB, EFRAG, OIC).

    (f) Regular attendance at major academic conferences and/or liaison with academic associations (AASB, AcSB, ANC, FASB, EFRAG, OIC, AOSSG).

    (g) Sponsoring or commissioning specific research papers (ANC, ASBJ AASB/NZASB, EFRAG).

50. Overall, there was support for the Board to continue/develop its academic liaison activities, for example the ANC member noted that accounting research is essential. However, there was also acknowledgement of the difficulties that can arise in liaising with academics:

    (a) Some topics are easier to engage on with academics, for example the *Conceptual Framework*, performance reporting, than other topics.

(b) It can be hard to get academic research on a timely basis for standard-setting projects.

(c) It is hard to measure and evaluate the outcomes from academic liaison activities.

(d) Some academics have a deep but relatively narrow area of expertise. Hence, it may be difficult to identify the best academics to engage with on a regular basis. A network of academic contacts might work better than a standing group.

Information deficiencies and consolidated financial statements

51. Andreas Barckow, the DRSC member, presented on the perceived information deficiencies of consolidated financial statements, in particular, the loss of information about subsidiary entities through the elimination procedures in preparing consolidated financial statements.

52. Whilst all ASAF members acknowledged the validity of the issues raised, they equally were in agreement that consolidated financial statements still provide useful information to users. Any additional information should supplement rather than replace consolidated financial statements. Some members also noted that the extensive disclosure requirements in IFRS Standards such as IAS 7 *Statement of Cash Flows* and IFRS 12 *Income Taxes* have mitigated the deficiencies.

53. Although the aim of the session was not to conclude on any specific steps or measures but to rather make standard-setters aware of the deficiencies, some members made specific suggestions to address the perceived information deficiencies of consolidated financial statements, including:

(a) provide disclosures of the existing information in consolidated financial statements, disaggregated by category such as legal entities, geography, industry, non-controlling interests;

(b) provide summarised disclosure in relation to how the group’s legal structure impacts its control of assets and liabilities;

(c) provide additional information on subsidiaries’ tax positions, such as tax rates by jurisdictions;

(d) further investigate any issues of perceived deficiencies of consolidated financial statements as part of the post-implementation reviews of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*, or through the Board's wider corporate reporting project;

(e) call attention (eg through education or wider discussions with stakeholders) to the need to fairly represent the group's financial position and financial performance; and

(f) call attention to the benefits to investment decisions by disclosing sufficient information in areas such as group tax issues, location of group operations, and labour practices in subsidiary jurisdictions.

Exposure Draft: Improvements to IFRS 8 *Operating Segments* (Amendments to IFRS 8 and IAS 34)

54. The staff explained that the Exposure Draft of proposed improvements to IFRS 8 and IAS 34 was published in March 2017. The comment letter period for the Exposure Draft ended in July 2017. The ASAF had discussed some of the proposals from the Exposure Draft.

55. The Board discussed a summary of the feedback at its November 2017 meeting.

56. The staff noted that feedback on the Exposure Draft was mixed, depending on the category of respondents. The staff were seeking ASAF members' views on some ideas on how the proposals in the Exposure Draft could be improved. The ideas aimed to address the proposals for:

(a) identification of the chief operating decision maker (CODM);

(b) criteria for aggregating operating segments; and

(c) linking IFRS 8 segments with the annual reporting package.

Identification of the chief operating decision maker (CODM)

57. Many ASAF members (DRSC, AcSB, AASB/NZASB, FASB and OIC) did not consider the proposed amendments to IFRS 8 to help identification of the CODM as sufficient to warrant amending the Standard. The main reasons for this view were:

    (a) initial difficulties in identifying the CODM have now been resolved and the Board needs to carefully consider the cost/benefit of making any changes to IFRS 8; and

    (b) developing more specific guidance on the identification of the CODM, could be difficult, given that different management structures exist in different jurisdictions.

58. The SAFRC representative believed that more guidance on identification of the CODM would be useful in South Africa. Some ASAF members (SAFRC, AASB/NZASB) agreed examples might be helpful, but they said that examples should not be interpretative.

59. The FASB representative said that although identification of the CODM was not an issue in his jurisdiction, the FASB had been trying to investigate what information CODMs use.

Criteria for aggregating operating segments

60. The staff outlined three ideas for strengthening the aggregation criteria in IFRS 8 to ASAF members:

    (a) remove the aggregation criteria but retain a practical limit;

    (b) retain only the qualitative thresholds for determining the reportable segments (eg 10 per cent of combined revenue); and

    (c) provide further guidance to help entities identify similar economic characteristics.

61. The FASB representative said they are considering the first two ideas and they plan to undertake outreach on these ideas during 2018.

62. A number of ASAF members (ANC, EFRAG, AASB/NZASB and OIC) supported the third idea, which expanded on a proposal in the Exposure Draft.

63. The ANC representative said French stakeholders are divided on the matter of aggregation: users and regulators want to have stricter criteria whilst preparers would like to keep the existing criteria.

64. The DRSC representative pointed out that the first two ideas contradicted the underlying principle of IFRS 8, ie the management approach.

65. The EFRAG representative said that if the Board were to go ahead with first two ideas he did not expect there will be a clear consensus from stakeholders.

66. The AcSB representative said that if the Board were to continue with the third idea it might be useful to include future growth prospects as one of the factors in assessing similar economic characteristics.

Link IFRS 8 segments with the annual reporting package

67. Some ASAF members (DRSC, EFRAG and ANC) shared the following concerns about the proposals on linkage:

    (a) it is the role of market regulators to monitor consistency of information within the annual report; and

    (b) entities should place explanations of differences, if any, outside of financial statements.

68. The vice-chair of the Board explained that IFRS 8 is based on the management approach, which presumes that an entity's activities are reported as if 'through the eyes of management' in a consistent way. The aim of this proposed amendment is to explain differences between segments identified in the financial statements and segments identified in other parts of the entity's annual reporting package.

69. The DRSC and EFRAG members suggested considering linkage as part of the new project on management commentary. On the other hand, the AASB/NZASB member suggested considering the number of segments as a key judgement, in accordance with IAS 1 *Presentation of Financial Statements*, and requiring disclosures.

70. The ANC representative questioned whether information provided by entities in accordance with this proposal could be audited. The staff said that they were liaising with the International Auditing and Assurance Standards Board (IAASB).

Business Combinations Under Common Control

71. The purpose of this session was to provide ASAF members with an update on the Board's discussions on the Business Combinations Under Common Control (BCUCC) research project and seek ASAF members' views on:

    (a) clarifications of the scope of the project; and

    (b) methods of accounting for transactions in the scope of the project.

Scope of the project

72. In October 2017, the Board decided to clarify that the scope of the project includes transactions under common control in which a reporting entity obtains control of one or more businesses, regardless of whether IFRS 3 *Business Combinations* would identify the reporting entity as the acquirer if IFRS 3 applied to the transaction. ASAF members supported the clarification made by the Board.

73. In expressing their support:

    (a) the EFRAG member noted that it will be challenging to find a precise way to describe the transactions within the scope of the project;

    (b) the SAFRC, AASB/NZASB and AcSB members specifically welcomed the Board's focus on the reporting entity;

    (c) the AcSB member encouraged the staff to maintain the disciplined approach set out on slide 8 of Agenda Paper 8A as the project progresses; and

    (d) the AOSSG member suggested that the Board should pay particular attention to transactions raised with the IFRS Interpretation Committee.

74. The ANC member asked whether an acquisition of an associate or an interest in a joint venture from an entity under common control will be included in the scope of the project. The staff clarified that they will consider the interaction between accounting for transactions within the scope of the project and other transactions under common control as the project progresses.

75. The ASBJ member noted that in discussing accounting treatments the Board should consider whether the reporting entity is preparing consolidated or separate financial statements and who the users of these financial statements are. The AOSSG member

supported the Board's focus on accounting for transactions in the scope of the project instead of making a distinction between types of financial statements prepared by the reporting entity.

76. The staff presented their further recommendation that the Board should 'fill in the gap' in accounting for business combinations and also consider transfers of businesses in which all the combining parties are ultimately controlled by the same controlling party (or parties), and the transfers:

    (a) are preceded by an external acquisition or/and followed by an external sale of one or more of the combining parties; or

    (b) are conditional on a future sale, such as in an initial public offering (IPO).

77. ASAF members supported the staff's recommended focus on the accounting treatment of transactions that give rise to application questions including the staff recommendation not to focus on the distinction between business combinations under common control and business combination *not* under common control.

Methods of accounting

78. The staff presented their initial considerations on the methods of accounting for transactions in the scope of the project. In particular, the staff outlined:

    (a) two approaches to developing accounting requirements for transactions within the scope of the project:

        (i) use the acquisition method as a starting point; or

        (ii) use the so-called predecessor method as a starting point; and

    (b) a preliminary list of factors the Board might consider in deciding when each method is appropriate.

A starting point in the analysis

79. The OIC member suggested that the two approaches outlined by the staff would likely result into similar practical outcomes. That member also suggested that the so-called fresh start method may be appropriate when an accounting acquirer cannot be easily identified (eg in a 'merger of equals'). The staff observed that the predecessor method could also be appropriate in those circumstances.

80. The AOSSG member supported the view that different methods may be appropriate for different transactions in the scope of the project. That member stated that if the Board were to require the acquisition method for all transactions within the scope of the project, some AOSSG members might raise concerns about reliability of fair value valuation in their jurisdictions. That member also suggested the staff should consider all alternatives, including developing accounting methods directly from the guidance in the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) as opposed to starting from existing IFRS Standards requirements or from current practice. The AASB/NZASB member supported this view.

81. The CASC member stated that in China the predecessor method is required for business combinations under common control. That method is considered appropriate in China because business combinations under common control are normally:

(a) initiated and directed by the controlling party that has the power to determine the terms of the transaction (even when non-controlling shareholders, NCI, are affected);

(b) effected for the benefit of the group as a whole instead of for the benefit of the combining parties (eg to streamline activities within the group and/or to restructure the relationship between entities in the group); and

(c) not concluded on market terms.

82. The AOSSG member commented on the cost constraint in applying the acquisition and the predecessor method. The member noted that applying the acquisition method (ie obtaining fair value valuation) might be expensive, but the predecessor method might be equally costly if retrospective application is required, especially in complicated transactions.

Factors to consider

83. ASAF members made the following comments regarding factors to consider in selecting an accounting method for particular types of transactions:

(a) the AASB/NZASB, AcSB, ANC, OIC and AOSSG members shared a view that ‘commercial substance’ of a transaction has a role to play in deciding which accounting method is appropriate. The AOSSG member stated that in their outreach with investors they learnt that investors consider the impact on future cash flows of the reporting entity in assessing the substance of a transaction.

(b) The DRSC member suggested that a requirement to assess 'commercial substance' might be difficult to operationalise. He also suggested that the terms 'commercial substance' and 'economic substance' might cause confusion. He suggested breaking down the notion of 'commercial substance' into more discrete and objective indicators. The staff explained that they used the term 'commercial substance' as described in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*, ie referring to a significant change in future cash flows as a result of the transaction. The OIC member observed that 'commercial substance' is also described in IFRS 15 *Revenue from Contracts with Customers* and suggested that the staff should use that description.

(c) the AASB/NZASB, AcSB and AOSSG members expressed a view that 'purpose of the transaction' also has a role to play in selecting an appropriate accounting method. The ANC member suggested that if a transaction is a mere reorganisation of entities within a group the predecessor method should be applied. In contrast, the OIC member expressed a concern that assessing the purpose of a transaction might be too subjective.

(d) ASAF members expressed mixed views on whether the 'consideration transferred' should play a role in determining accounting treatment. AOSSG member argued that consideration transferred is important to consider. In contrast, the AcSB and AASB/NZASB members did not think that consideration transferred for the business combination under common control should affect the determination of the most appropriate accounting treatment. The ANC member noted that the *form* of the consideration transferred does matter in deciding which method can be applied to account for a transaction according to French regulation on mergers. He further argued that it is unrealistic to consider the *amount* of the consideration transferred.

(e) ASAF members did not support using ‘decision-making process’ as a factor in determining an appropriate accounting treatment. They argued that how the transaction has affected the reporting entity should be the main consideration, rather than how decisions about the transaction were made. The OIC member and AOSSG members specifically expressed a concern that this factor would be too subjective and even misleading.

84. The EFRAG member said that the factors identified by the staff are useful considerations but it is not clear which method they indicate. He noted that in 2011 EFRAG attempted to develop a list of indicators or criteria that could provide a basis for deciding whether the acquisition method or the predecessor method should be used, but it did not reach a conclusion. He expressed scepticism about trying to develop a persuasive set of criteria and suggested that the focus should instead be on understanding which method would provide primary users with the most useful information in each circumstance.

85. The AASB/NZASB and AOSSG members supported using the guidance in the *Conceptual Framework* and focusing on the reporting entity. The AASB/NZASB member suggested that the Board should also decide what the reporting entity’s financial statements represent, ie an extract of the controlling party’s consolidated financial statements or a stand-alone separate set of financial statements.

86. The AcSB member suggested the staff should ‘test’ the factors on different situations in different jurisdictions before making a recommendation to the Board.

Users of financial statements

87. The staff asked whether the existence of external lenders and other creditors would influence ASAF members’ assessment of which method to apply for a particular transaction or whether the focus should mainly be on equity investors in the reporting entity.

88. ASAF members confirmed that they would consider all primary users, not just equity investors. However, the AASB/NZASB member observed that when NCI exist it is much harder to move businesses around a group in a way that does not benefit the reporting entity, whereas the same level of ‘protection’ is typically not enjoyed by external lenders and other creditors in a wholly owned reporting entity.

89. The AcSB member said that, in her jurisdiction, business combinations under common control are often undertaken for tax purposes. Consequently the users of the reporting entity’s financial statements are often tax authorities. She highlighted that although the timing of the cash flows may change significantly at the reporting entity level, they often do not change at the consolidated level.

90. The AOSSG member suggested focusing on external primary users of a reporting entity’s financial statements.

91. The AASB/NZASB observed that when a transaction is effected in preparation for an IPO, it is important for all assets and liabilities being offered in the IPO to be measured on a consistent basis (ie either all at fair value or all at carrying amounts).

Project updates and agenda planning

92. The staff presented an update on the technical projects and a summary of how the Board had used the ASAF advice from the previous meeting.

93. The staff also presented topics for inclusion on the agenda of the April 2018 ASAF meeting.