Summary note of the Accounting Standards Advisory Forum

Held on 9 July and 10 July 2018 at the IASB office, 30 Cannon Street, London.

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

ASAF members and specialist presenting

Andreas Barckow	Accounting Standards Committee of Germany (DRSC)
Alexsandro Broedel Lopes Rodrigo Andrade de Morais	Group of Latin American Standard-Setters (GLASS)
Patrick de Cambourg Cédric Tonnerre	Autorité des normes comptables (ANC)
Alberto Giussani Tommaso Fabi	Organismo Italiano di Contabilità (OIC)
Jim Kroeker Christine Botosan	Financial Accounting Standards Board (FASB)
Linda Mezon Rebecca Villmann	Accounting Standards Board of Canada (AcSB)
Yukio Ono Atsushi Kogaska Yasunobu Kawanishi	Accounting Standards Board of Japan (ASBJ)
Kris Peach / Kimberley Crook David Bassett	Australian Accounting Standards Board (AASB) / New Zealand Accounting Standards Board (NZASB)
Andrew Watchman Patricia McBride	European Financial Reporting Advisory Group (EFRAG)
Lin Zhu	China Accounting Standards Committee (CASC)
Huaxin Xu Christina Ng Il-Hong Park Kris Peach	Asian-Oceanian Standard-Setters Group (AOSSG)

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Financial Instruments with Characteristics of Equity

1. The IASB staff (staff) provided an education session for ASAF members on the Discussion Paper *Financial Instruments with Characteristics of Equity,* issued in June 2018.

2. The AOSSG member asked for clarification on the distinction between solvency and liquidity, which are part of the amount and timing feature definitions, respectively. The AOSSG member added that an alternative to solvency could be to make the amount feature definition clearer. The staff explained that different articulations have been considered and the variability of the returns seem to be the most appropriate term.

3. The ASBJ member commented on paragraph 3.17 of the Discussion Paper and questioned whether the entity's capital structure would affect its available economic resources. If so, the member thought that the same instrument would be classified differently, depending on the capital structure of the entity. The ASBJ member gave the example of a bond that entitles the holder to 30% of the value of the entity's total assets and will be classified as liability because it is independent of the entity's available economic resources. However, if the only claims against the entity are this bond and ordinary shares, then the amount of the claim other than the bond would never exceed 70% of the total assets and subsequently the bond would be classified as equity because it is dependent on the entity's available economic resources. The staff clarified that even in the latter case, this bond would not be classified as equity because the entity could issue other claims.

4. The GLASS member said that the definition of unavoidable obligation is not clear in the Discussion Paper, as it has not been precisely defined. The GLASS member stated that, in his view, it is not clear that the entity's performance is not within the control of the entity.

5. The ANC member asked whether an impact assessment will be conducted. The ANC member emphasised the importance of such assessment from a financial stability perspective. The staff clarified that an impact assessment will need to evaluate the extent to which instruments that are currently classified as equity would be classified as financial liabilities under the new approach and vice versa. The staff would consider this at a future point in time.

6. The AASB/NZASB member drew attention to the interaction between the Discussion Paper and the *Conceptual Framework for Financial Reporting*. The staff clarified that the Board would consider the interaction between the two documents if it decides to progress the proposals in the Discussion Paper. The AOSSG member noted it will be useful to have an analysis of that interaction at an appropriate time.

Business Combinations under Common Control

Summary of Joint Investor Survey

7. The purpose of this session was to discuss the results of a joint investor survey conducted by the Hong Kong Institute of Certified Public Accountants (HKICPA) and Organismo Italiano di Contabilità (OIC). The survey aimed to:

- understand whether investors assess the underlying substance of mergers and acquisitions under common control (business combinations under common control (BCUCC)) differently from mergers and acquisitions between third parties; and
- explore the factors that could indicate the differences in the underlying substance of BCUCC contrasted with the underlying substance of mergers and acquisitions between third parties.

8. The HKICPA and OIC members presented the results of the survey and emphasised that investors often consider similar factors in assessing the substance of the two types of transactions; particular factors investors consider include the transaction's expected effect on the receiving entity's cash flows and whether the transaction price is at fair value.

9. The HKICPA and OIC sought ASAF members' comments on the survey findings and what, if any, areas should be explored further.

10. Many ASAF members (AASB/NZASB, GLASS, ASBJ, AcSB, FASB and DRSC) indicated that they found the survey findings interesting and suggested the findings could be useful to the Board's BCUCC project.

11. The GLASS member raised a question about whether achieving a tax benefit is a factor that should be considered in assessing the substance of the transaction. The

member stated that in some jurisdictions transactions that are undertaken primarily to achieve tax benefits are considered to have no economic substance.

12. The staff noted the focus of the BCUCC project focus is on what the substance of the transaction is, and what information would be most useful to primary users rather than on whether the transaction has economic substance. The staff argued that from the perspective of the receiving entity BCUCC have economic substance because the entity acquires a new business. The FASB and DRSC members expressed views similar to those expressed by the staff and suggested it is important to consider what the substance of the transaction means for the accounting.

13. A Board member asked whether investors' focus on the consideration in a BCUCC being at fair value implies that investors think that fair value can always be determined. The HKICPA presenter stated that in Hong Kong listed companies are required to disclose fair value of the acquired business and that valuation experts are therefore able to determine fair values.

14. The staff suggested it is important to explore how an investor's assessment of the substance of BCUCC can help to identify investors' information needs. The DRSC member suggested exploring disclosures for a reverse acquisition to help in this identification.

Measurement approaches for transactions within the scope

15. The staff presented agenda paper 6; the purpose of this session was to seek ASAF members' views on the measurement approaches developed by the staff for transactions within the scope of the Board's BCUCC project. ASAF members expressed diverse views on the topic.

16. Some ASAF members (AcSB, AOSSG, EFRAG and AASB/NZASB) agreed with the staff's initial assessment that a current value measurement approach would provide the most useful information to non-controlling shareholders (NCI) in the receiving entity. The AOSSG member suggested that measurement at fair value would involve measurement uncertainty and noted that some jurisdictions may face challenges with determining fair values (eg due to the lack of experienced specialists or poor corporate governance). The EFRAG member suggested that the staff's assessment should be supported by further discussion and analysis of why a current value measurement approach would provide the most useful information.

17. Some ASAF members (AcSB, ASBJ and OIC) suggested it is important to consider whether particular characteristics of NCI (eg size or nature) would affect the selection of the appropriate measurement approach. They argued that if the NCI is ‘not substantive’ the benefits of applying a current value measurement approach may not outweigh the costs.

18. The AOSSG and ASBJ members questioned which primary users of the receiving entity’s financial statements the analysis should focus on. The ASBJ member argued that the measurement approach selected needs to be the approach that provides the most useful information for all primary users of the receiving entity’s financial statements, including the controlling party.

19. Some ASAF members (EFRAG, ANC, AASB/NZASB and ASBJ) noted that in many jurisdictions there are laws and regulations that protect NCI and therefore it is reasonable to assume that BCUCC take place on market terms or that the NCI has remedy rights. The staff questioned whether that would be the case in all jurisdictions and suggested that a future Standard may need to address circumstances in which such laws, regulations or remedy rights do not exist or in which the entity has not complied with them. The AOSSG member supported the staff’s arguments.

20. The EFRAG and ANC members further noted that there can be significant measurement uncertainty involved in a current value measurement approach. Therefore, measuring any contributions to and distributions from equity in a BCUCC would be challenging. These members also considered such measurement was difficult to justify where NCI protection laws are in place. The AASB/NZASB member suggested a rebuttable presumption that the transaction takes place on market terms could be applied.

21. The CASC member did not agree with the use of a current value measurement approach for BCUCC transactions. The member supported the concern that measurement uncertainty can arise in a current value measurement approach. The member also disagreed with recognising goodwill in a BCUCC because these transactions may not take place at fair value therefore any goodwill recognised would reflect the measurement uncertainty relating to the measurement of the fair value of the consideration. Arguably, applying a current value measurement approach could lead to abuse. The AOSSG member also reported concerns of some AOSSG

members about use of fair value, due to the lack of valuation expertise in some jurisdictions.

22. The OIC member questioned the staff's assumption that existing NCI and prospective capital providers in an IPO could have different information needs and argued that their information needs might be the same. The staff explained that the transaction could affect the existing NCI interest; in contrast, prospective capital providers invest after the BCUCC in the enlarged reporting entity. The AASB/NZASB member suggested that using different measurement bases for assets and liabilities of a new entity created to be sold in an IPO would not provide the most useful information for prospective capital providers. The member encouraged using either current values or predecessor carrying amounts for all assets and liabilities of such a new entity.

23. The AcSB member agreed with the staff's initial assessment that a predecessor measurement approach would be most appropriate for BCUCC in the circumstance that the receiving entity is wholly owned and has external lenders or creditors. The AcSB explained that those primary users have access to information other than the receiving entity's financial statements. Some ASAF members (FASB, ANC, OIC and AASB/NZASB) expressed reservations about the AcSB view and argued that NCI were not the only primary users of the receiving entity's financial statements that could benefit from information provided by using a current value measurement approach. The ANC member stated that in his jurisdiction lenders and creditors enjoy the same legal protection as NCI.

24. The GLASS member suggested that the measurement approach should be selected by considering whether the transaction has economic substance. The member implied that BCUCC transactions that do not have economic substance (eg, in his view, those undertaken for tax benefits) should be accounted for applying a predecessor method.

25. The AOSSG member suggested that if the current value measurement approach is used for BCUCC, additional disclosures (eg explaining the purpose of the transaction and valuation assumptions) should be provided to help users of financial statements understand the transaction. The AOSSG member also commented that users may also welcome additional disclosures for all business combinations under the scope of IFRS 3.

Primary Financial Statements

26. The purpose of this session was to seek ASAF members' advice on moving the Primary Financial Statements project from the research agenda to the standard-setting agenda (agenda paper 2).

27. The OIC, CASC, EFRAG, ANC, AcSB, AOSSG, FASB and ASBJ members said that they thought the project has met the due process criteria for moving to a standard-setting phase, with additional comments as follows:

    (a) the CASC, ANC and ASBJ members said that they thought the next due process document for the project should be a Discussion Paper because there are still several unresolved issues and differences in views on the proposals.

    (b) the AcSB member said they had heard support for the proposals on subtotals in the statement(s) of financial performance and that the focus needs to be on making improvements.

    (c) the EFRAG and AOSSG members said that the project required more work and research, such as extending the current proposals to cover more sectors, including financial entities and conglomerates.

    (d) the FASB member questioned whether stakeholders would perceive the benefits as outweighing the costs. She stated that in the US there had been significant resistance from preparers to proposed changes in presentation.

    (e) the GLASS member said that different users have different views on how to achieve comparability and that a trade-off between flexibility and comparability will be needed.

28. The DRSC and AASB/NZASB members said it was difficult to separate the question of whether the project should be a standard-setting project from whether the first due process document should be a Discussion Paper or an Exposure Draft. They said the first due process document should be a Discussion Paper that focuses on identifying feasible solutions to the identified problems, including the application of the proposals to the financial sector and conglomerates.

29. The ASBJ member questioned whether there would be any difference between a Discussion Paper published as part of a research project and a Discussion Paper published as part of a standard-setting project.

30. The FASB member said that the conversation should move on from whether there is a problem, commenting that if you leave a project on the research agenda for too long, stakeholders will question whether there really is a problem.

Better Communication–Draft Framework for Reporting Performance Measures

31. ASAF members were asked to provide feedback on the AcSB's Draft Framework for *Reporting Performance Measures* (agenda paper 1).

32. The AcSB's focus is to improve the quality of other financial information (Performance Measures) that users are relying on. The AcSB preliminary research established that users generally understand that financial statements are audited, but some are unclear about the involvement of auditors in published Performance Measures outside of financial statements that are not subject to audit.

33. The AcSB representatives explained that a key objective of the work was to start a dialogue on the topic of Reporting Performance Measures. The AcSB thought this objective had already been achieved, as a significant amount of feedback has been received on the draft Framework. The feedback received highlighted a few concerns:

    (a) users think that the rigour of preparing financial and operating performance measures should be on the same level as that of audited financial statements; in contrast preparers did not consider such rigour would be possible for operating measures;

    (b) preparers would like the Framework to be consistent with regulatory requirements so that in applying the Framework preparers would also achieve regulatory compliance;

    (c) some public and not-for-profit companies suggested that the Framework should be expanded to cover further areas, such as environmental reporting; and

(d) a number of stakeholders had expressed a desire for example performance measures to encourage improvements in practice.

34. The AcSB member outlined the proposed next steps in the project and requested ASAF members' feedback on any improvements that could be made to the draft Framework[2]. They also requested information on any similar proposals in members' jurisdictions, and on whether such a Framework might be useful in members' jurisdictions.

35. The vice-chair of the Board noted similarities between the AcSB draft Framework and the Board's Primary Financial Statements (PFS) project. She asked whether it would be helpful for the Board to proceed at this time to standard-setting on the PFS project if the AcSB draft Framework would cover some topics addressed in that project. The AcSB representative said the topics covered by the Board's PFS project would be outside the scope of the draft Framework as it is part of GAAP. That said, the Framework could provide non-authoritative guidance to assist preparers.

36. The GLASS representative complimented the draft Framework. He asked whether management forecasts are within the scope, and noted a belief that they should be.

37. The GLASS representative also noted the need for consistency as an important element for the Framework. He suggested the AcSB look at consistency over time, between jurisdictions and also with other presentation and disclosure, for example entities might exclude legal costs as non-recurring but fail to exclude non-recurring income.

38. A Board member suggested the AcSB should consider what the draft Framework aims to achieve, for example, should the focus be on comparability or on consistency. Comparability would be a much longer project than consistency. The Board member further suggested that if the AcSB are seeking some comparability, a simple measure might be to ask whether an entity is using the commonly accepted reporting measures within its industry, and if not, explaining that decision. The AcSB noted that some users are encouraging an industry-by-industry guidance.

[2] The AcSB have distributed a survey on the draft Framework and welcome responses from all jurisdictions.

39. The AOSSG representative noted that most AOSSG members think the draft Framework is useful but think that it is similar to the *Conceptual Framework* and the *IFRS Management Commentary*. Most AOSSG members also believe that such a Framework is unlikely to be widely applied unless mandated, due to different local laws.

40. The AASB/NZASB representative supported the draft Framework, including the document's grounding in the *Conceptual Framework*, but suggested that some more thinking is needed around the application of materiality outside the financial statements. The member considered the draft Framework could help entities with selecting performance measures.

41. The ANC member expressed his support for the paper and noted French stakeholders are very supportive of a principles-based approach but cautioned against too much detail.

Property, Plant and Equipment (PPE): Proceeds before Intended Use

42. ASAF members were asked for advice on the possible ways forward regarding the Exposure Draft (ED) *Property Plant and Equipment—Proceeds before Intended Use* (proposed amendments to IAS 16). ASAF members were provided with the feedback summary presented to the Board at its meeting in December 2017, as well as the feedback and analysis provided to the Interpretations Committee at its meeting in June 2018.

43. ASAF members were presented with three possible approaches to move forward with the project. Those approaches were as follows:

    (a) <u>Approach 1</u>: Proceed with the ED as published.

    (b) <u>Approach 2</u>: Proceed with the ED with some modifications (for example, adding (i) a principle and requirements on cost allocation; and/or (ii) disclosure requirements).

    (c) <u>Approach 3</u>: Proceed with additional disclosure requirements and consider possible alternative standard-setting approaches (for example, (i) clarify when an item of PPE is available for use; or (ii) address the matter within the Board's research project on *Extractive Activities*).

44. Many ASAF members supported Approach 3 or a variation of it. Those ASAF members also made the following comments:

(a) The FASB, DRSC and AASB/NZASB members supported Approach 3. Additional disclosure requirements of the amounts of proceeds earned before an item of property, plant and equipment is available for use would help identify the industries affected. It could also help the Board identify whether the matter to address is the accounting for proceeds before intended use or determining when an item of PPE is available for use. The AASB/NZASB member suggested that if the Board were to proceed with the ED, further requirements should be developed on the cost of producing items sold.

(b) The EFRAG member said Approach 3 is the approach closest to the EFRAG recommendation regarding the project. This member said disclosures could provide useful information and might result in greater focus by management on when an item of PPE is available for use.

(c) The ANC member observed that proceeds before intended use are not material for French entities and often do not exceed the cost of testing. This member said the ED could result in implementation costs for entities with immaterial amounts of proceeds and suggested that the Board focus on clarifying when an asset is available for use.

(d) The ASBJ member and one jurisdiction in the AOSSG said the existing requirements in IAS 16 are well understood and, hence, did not support standard-setting other than additional disclosure requirements. The ASBJ member said developing disclosure requirements together with clarifying the definition of testing activities may improve the existing requirements in IAS 16.

(e) The CASC member, as well as several jurisdictions in the AOSSG, did not support Approach 2, in particular given the comments received relating to cost allocation. Accordingly, those members considered Approach 3 to be more appropriate.

45. Two ASAF members supported Approach 2. They made the following comments:

(a) The OIC member said it might be useful if the Board were to develop some high-level principles on cost allocation. This member also noted that IAS 2 *Inventories* includes requirements on cost allocation that could be used to develop such principles.

(b) The AcSB member said the best way to move forward is Approach 2 but a combination of Approaches 2 and 3 might also be acceptable. Nonetheless, this member noted Approach 3 could be more appropriate should the Board wish to proceed more quickly. If proceeding with Approach 2, the AcSB member suggested that the Board develop further requirements on cost allocation. This member suggested possibly considering a cost allocation approach that would focus on direct costs but would not prohibit the inclusion of indirect costs.

46. Only one jurisdiction in the AOSSG supported Approach 1.

47. A number of ASAF members questioned whether proceeds before intended use are material for industries other than the extractive industry. Some ASAF members suggested that the matter be addressed as part of the *Extractive Activities* project if it affects only this industry.

48. Some ASAF members made the following comments in this respect:

(a) The AcSB member outlined the prevalence and materiality of the matter for Canadian extractive entities, noting that this is an important matter in Canada. This member noted that the assessment of the materiality of proceeds should not be limited to assessing materiality in relation to the annual financial statements, particularly when entities publish interim financial reports.

(b) The GLASS member said such proceeds could be material for junior mining entities but may not be material for larger mining entities. If such proceeds are material, this might indicate that the item of PPE is already available for use.

(c) The EFRAG member suggested that the Board perform an effect analysis to clarify the materiality of the matter.

Goodwill and Impairment

49. The purpose of this session was to:

    (a) seek ASAF members' views about disclosures that the Board tentatively decided to consider and additional possible disclosures the staff are considering to improve disclosure requirements for business combinations, goodwill and impairment; and

    (b) ask ASAF members whether they have any suggestions or ideas for other possible disclosures that can provide better and timely information about business combinations, goodwill and impairment for users without imposing costs that exceed the benefits.

Disclosure approaches that the Board tentatively decided to consider

50. ASAF members expressed mixed views about approaches that the Board tentatively decided to consider to improve disclosure requirements for business combinations, goodwill and impairment.

51. Some ASAF members (EFRAG and AASB/NZASB) recommended separating the improvements to disclosures into two separate categories, depending on whether the objective is to provide information about:

    (a) the acquisition and whether it has been a success; or

    (b) the impairment test.

52. Several ASAF members (EFRAG, AASB/NZASB, CASC, GLASS and AOSSG) were generally supportive of the disclosure of the reasons for payment of premium together with the key targets or assumptions supporting the acquisition and, subsequently, a comparison of actual performance to those targets or assumptions. However, the following concerns were also expressed:

    (a) Some ASAF members (EFRAG, FASB, DRSC and AOSSG) noted that tracking an acquisition would be difficult and costly if the acquired business has been integrated into the acquirer's other businesses.

    (b) Some ASAF members (FASB and CASC) noted that this information could be commercially sensitive and the FASB member stated that as a consequence entities may provide only boilerplate information.

(c) Some ASAF members (CASC and AOSSG) expressed concerns over the ability to verify the information.

53. The EFRAG member suggested that the objective of providing information on the acquisition and its subsequent performance could be met in a number of ways depending on the facts and circumstances of the acquisitions.

54. The AASB/NZASB member suggested that the payback period should determine how long the information should be provided for and stated that the disclosure objective should not just focus on goodwill.

55. The DRSC member questioned whether the request for information on the performance of the acquisition was more about a request for information on the company’s strategy and as much to do with organic business as with the acquired business. The DRSC member said that it is more appropriate to disclose such information in the management commentary rather than in the notes to the financial statements.

56. Most ASAF members generally did not support disclosing a breakdown of goodwill by past acquisition, expressing the following concerns:

(a) whether companies are able to track goodwill by past acquisition if the acquired businesses has been integrated with an existing business;

(b) the costs involved; and

(c) whether this information would provide benefits to users of financial statements.

57. However, some ASAF members (FASB and OIC) thought that this breakdown, along with information on the estimated payback period, could provide useful information for some users.

58. Most ASAF members (EFRAG, OIC, ANC, FASB and CASC) did not support disclosing headroom each year, mainly because it might mean having to disclose the value of a segment or of the whole entity, and this information would be sensitive. In addition, the FASB member commented that disclosing the value of the whole entity is not necessary to meet the objective of general purpose financial reporting in the *Conceptual Framework.* The CASC member did not agree with the headroom approach overall, nor with disclosure of the headroom each year.

Other additional possible disclosures or suggestions to improve disclosure requirements about business combinations, goodwill and impairment

59. The GLASS member expressed concerns about disclosing the revenue and operating profit of the acquired business. He emphasised that this could be misleading since this information relates only to the acquired business and could ignore synergies with other parts of the existing business.

60. The AOSSG member expressed concern that it may not feasible to disclose the revenue and operating profit of the acquired business if the acquirer has integrated the acquired business.

61. There was limited support for the disclosure of total net assets less goodwill because currently this information is readily available for users.

62. The AcSB member suggested further work be performed on exploring providing the disclosures at the operating segment level.

63. The ASBJ member suggested that useful information would be provided by disclosing how changes in the business environment or management strategy have affected management's estimates of value in use.

64. IAS 36 *Impairment of Assets* requires that an entity disclose the growth rate or discount rate used for cash flow projections if the unit's recoverable amount is based on value in use. The AASB/NZASB member said that disclosure of the reason why an entity has chosen a particular assumption is more important than disclosure of what the assumption is for growth rate or discount rate.

65. The AOSSG member suggested that other possible improvements to disclosures would be:

    (a) disclosure of the rationale for the inputs used for testing goodwill for impairment; and

    (b) a disclosure based on concepts similar to those underlying a subsequent cash flow test used in former UK Standard FRS 11 *Impairment of Fixed Assets and Goodwill* but rejected by the Board when developing the amendments made to IAS 36 in 2004.

66. The ANC member noted that useful information would be provided by disclosing how an acquired business is to be integrated with the existing business.

67. The OIC member suggested that information about the payback period of the acquisition can be useful for assessing stewardship.

68. The OIC member, quoting an EFRAG staff paper, recalled that approximately 30% of the amount of goodwill is attributable to accounting mismatches, mainly the recognition of deferred tax liabilities, and asked whether there were plans to deal with this or require disclosure of this. The staff confirmed that there are currently no plans to do this but that this is something that could be reconsidered.

Better Communication–Targeted Standards-level review of Disclosures

69. At this meeting, ASAF members provided advice on:

(a) the Board's process for developing and drafting disclosure objectives and requirements (Guidance for the Board); and

(b) which Standards the Board should select for review.

Guidance for the Board

70. Staff described the Board's three step approach to developing the Guidance for the Board:

(a) Step 1: how the Board will use disclosure objectives in future;

(b) Step 2: the process the Board will use to develop the content of disclosure objectives and requirements; and

(c) Step 3: how the Board will draft disclosure objectives and requirements.

71. ASAF members provided suggestions on how the Board could maximise the effectiveness of liaising with stakeholders in developing specific disclosure objectives (Step 1):

(a) the EFRAG and AASB/NZASB members said that users should be asked *why* they need the requested information and how they expect to use it. They added that this would provide deeper insights for developing robust disclosure objectives. The AASB/NZASB member said that it would also be useful to understand *how often* users expect to use the requested information. The FASB member noted that in their similar initiative, they focused on asking users why the requested information is useful. However, the FASB member advised against specifying in the Standard how the information will be used because investors use information in different ways.

(b) the AASB/NZASB and AcSB members suggested that the Board consult auditors to understand the auditability of specific disclosure objectives.

(c) the AOSSG member suggested that the Board hold roundtable meetings with all stakeholder types.

72. ASAF members provided suggestions on the Board's process for developing and drafting disclosure objectives and requirements (Steps 2 and 3):

(a) the EFRAG and AASB/NZASB members said that the sub-steps within the process for *developing* the content of disclosure objectives and requirements should be applied in an iterative and flexible way, rather than a mechanical way.

(b) the AcSB and DRSC members said there might be instances where repeating, duplicating or having multiple similar disclosure requirements across IFRS Standards would be necessary. Consequently, both members suggested that the Board should not be strict in avoiding these cross-standard disclosure requirements. For example, the AcSB said that entities in some industries might refer to only particular IFRS Standards rather than to all IFRS Standards. As an analogy, the DRSC member also noted that the Board has recently concluded that it is appropriate that some IFRS Standards require entities to use different discount rates for estimating future cash flows, for example if the Standards require different measurement bases.

(c) the EFRAG member suggested that the Board ask preparers to perform a field-test of proposed disclosure objectives and requirements - for example, by comparing the disclosures they would prepare applying both current and proposed requirements. This member added that this could be an effective way to understand the effects of the proposed disclosure objectives and requirements.

(d) the AASB/NZASB and DRSC members supported the use of the IFRS Taxonomy team to help identify duplications and conflicts between disclosure requirements in different Standards. The AcSB member said the Board should consider talking to preparers who have mapped out IFRS disclosure requirements to their financial statement disclosures. The member thought this could help the Board to identify duplicate or similar requirements across the Standards.

(e) the DRSC member said that the Board should consider the effect of digital reporting, for example, whether advances in digital reporting will affect the extent to which disclosures are separated from the primary financial statements.

Selecting Standard(s) for Review

73. The AASB/NZASB, EFRAG and AOSSG members suggested that the Board select one older, IAS Standard and one newer, IFRS Standard. The AOSSG member added that the Board should select Standards with and without disclosure objectives while the AASB/NZASB member noted that older Standards generally do not contain any disclosure objectives. The members thought that selecting two different types of Standard would help the Board to test in an effective way the process for developing disclosure objectives.

74. The EFRAG member said that the Board should prioritise selecting a Standard that would provide the best avenue for improving the Guidance for the Board, rather than Standards that are the most in need of improvements to their disclosure requirements.

75. ASAF members expressed mixed views on which of the shortlisted Standards the Board should select for review:

(a) the AcSB[3], ANC, CASC, OIC and AOSSG members suggested that IFRS 3 *Business Combinations* should be selected. The ANC member said that IFRS 3 does not require information that users would find useful in their analysis. The CASC member added that there is diversity in practice regarding disclosures provided about business combinations.

[3]Feedback from the AcSB throughout this section is based on a survey of Board Members, IFRS Discussion Group and User Advisory Council.

(b) the AcSB, ANC, EFRAG and ASBJ members suggested that IAS 19 *Employee Benefits* and IFRS 2 *Share-based Payment* should be selected. The AASB/NZASB member said that IFRS 2 had received mixed views from their constituents, with some supporting its selection and some not. The ANC member said that entities do not understand the disclosure objectives in either IAS 19 or IFRS 2 and provide excessive information in their financial statements about employee benefits and share-based payments. Furthermore, the ANC member said that selecting either Standard would allow the Board to address issues relating to disclosure requirements that are also provided outside the financial statements. The GLASS member also supported the Board selecting IFRS 2. The GLASS member said that the information disclosed in financial statements about share-based payments is often boilerplate and does not provide all the information that users need in assessing corporate governance.

(c) the AcSB, GLASS, AASB/NZASB, EFRAG and AOSSG members suggested that IFRS 13 *Fair Value Measurement* should be selected. The AASB/NZASB and AOSSG members added that this is because it contains all disclosure issues identified during the Principles of Disclosure project, including a lack of clear disclosure objectives.

(d) the AOSSG and EFRAG members suggested that IAS 12 *Income Taxes* should be selected. The EFRAG member said that disclosure requirements in IAS 12 are focused on the accounting technicalities and do not require information that users would find useful in their analysis. However, the AASB/NZASB member said that IAS 12 should not be selected because its disclosure issues arise from the fundamental complexity of the Standard. Consequently, the member thought that the Board should instead consider a broader project to address issues relating to IAS 12.

(e) the ANC member suggested that IFRS 8 *Operating Segments* should be selected because it does not require all the information that users would find useful in their analysis. However, the AASB/NZASB member said that IFRS 8 should not be selected to test the Guidance for the Board because the Standard is too specific.

(f) the AcSB and GLASS members suggested that IAS 7 *Statement of Cash Flows* should be selected, while the AASB/NZASB member suggested that IAS 16 should be selected.

76. Some ASAF members suggested that the Board consider reviewing the disclosure requirements in some Standards that were not identified in the shortlist:

(a) the AASB/NZASB, ANC and ASBJ members suggested that IFRS 7 *Financial Instruments: Disclosures* should be selected. The AASB/NZASB and ANC members said that IFRS 7 includes unclear disclosure objectives and disclosure requirements that do not provide relevant information about some non-financial entities.

(b) the ANC member suggested that IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* should be selected because, in that member's view, it does not require all of the information that users would find useful in their analysis.

(c) the DRSC member suggested that IAS 34 *Interim Financial Reporting* should be selected because, in that member's view, the Board should consider how the Guidance for the Board can be applied to forms of financial reporting other than the annual report.

77. The table below provides a summary of the Standards that ASAF members supported for the targeted standards-level review of disclosure requirements:

	Shortlisted Standards									**Other Standards**		
	IFRS 2	**IFRS 3**	**IFRS 8**	**IFRS 13**	**IAS 7**	**IAS 12**	**IAS 16**	**IAS 19**	**IAS 21**	**IFRS 7**	**IAS 34**	**IAS 37**
AcSB	✓	✓		✓	✓			✓				
GLASS	✓			✓	✓							
AASB/ NZASB	✓			✓			✓	✓		✓		
ANC	✓	✓	✓					✓		✓		✓
EFRAG	✓			✓		✓		✓				
ASBJ	✓							✓		✓		
CASC		✓										
OIC		✓										
DRSC											✓	
AOSSG		✓		✓		✓						
Total	**6**	**5**	**1**	**5**	**2**	**2**	**1**	**5**	**-**	**3**	**1**	**1**

Accounting for pensions – hybrid plans

78. The AcSB member presented agenda paper 7, Research on Pensions: Hybrid Plans, which summarised the results of a research project led by the AcSB. The research illustrated diversity in accounting for new types of pension plans that contain risk-sharing features across several jurisdictions.

79. ASAF members were asked to provide feedback on:

    (a) the results of research performed to date by Canada, Germany, Japan, the United Kingdom and the US on hybrid pension plans;

    (b) a proposal that the Board consider the research performed in current or future projects addressing pension plans; and

    (c) recent developments in ASAF members' jurisdictions regarding the ongoing evolution of pension plans.

80. The GLASS member said that hybrid pension plans exist in his jurisdictions.

81. The DRSC member said that many pure defined benefit plans are now closed to new entrants in his jurisdiction and there are now a large number of shared-risk plans instead that, in his view, are not sufficiently addressed by existing requirements in IAS 19.

82. The ASBJ member said that, in Japan, pension plans are either defined contribution or defined benefit - ie no hybrid plans. However, in some cases, a Japanese entity may have a foreign operation that has a hybrid pension plan.

83. The ANC member said that hybrid plans do not exist in his jurisdiction and, as such, this is not an area of significant concern at this time.

84. The FASB member said that there are a number of Fortune 500 entities that have a hybrid pension plan. She also stated that while there are some existing requirements in this area under US GAAP, the requirements are very limited in scope.

85. The FASB member said that the FASB has decided against proceeding with a project on accounting for pension plans at this time but has conducted a disclosure review of pensions which highlighted the importance of disclosures around key assumptions used in pension accounting.

86. The EFRAG member said EFRAG has a similar project underway but the focus of the project is narrower with a focus specifically on benefit plans which are linked to asset returns (security-linked plans). The EFRAG member is evaluating the prevalence of these types of plans in Europe and potential accounting solutions.

87. The DRSC member said that under the existing IAS 19 requirements, in his jurisdiction, this results in employers still recognising 100% of the risks even though the risks are actually shared between the employers and the employees.

88. A number of members also brought up the role of the actuaries in the determination of the appropriate amounts to be included in the financial statements of an entity that has a hybrid pension plan. Some concerns were expressed and that it would be preferable that IFRS Standards addressed how actuaries should measure hybrid plans.

89. The staff said that any project that may be undertaken in this area would require a significant amount of time and resources given the number of potential inter-related issues related to hybrid plans.

90. The staff also commented on the current IAS 19 project in the research pipeline. This project is a targeted project with a specific focus that was added to the research pipeline as a result of the Board's most recent agenda consultation. At that time, there was not sufficient demand for a broader scale pension project.

91. The AcSB representatives said a research group from Canada, Germany, Japan, the United Kingdom and the US will be willing to assist and help with any further work that the Board undertakes on hybrid pension plans.

Project updates and agenda planning

92. The staff presented agenda paper 9, including the proposed agenda for the October 2018 ASAF meeting. The staff noted Dynamic Risk Management would be deferred to a later ASAF meeting, in order to further develop the project before seeking the advice of ASAF.

93. The ASAF members discussed the proposed agenda for the October 2018 ASAF meeting and made the following observations:

    (a) the AASB/NZASB member said the NZASB had been conducting research on extended external reporting. The research involves both a preparers' survey and a users' survey to understand views on extended external reporting. The NZASB considered that it might be useful to share the insights gained from the research with ASAF members as the insights related to the Board’s management commentary project and might be of interest to other ASAF members who are conducting work on the topic of extended reporting.

(b) the EFRAG member noted that there was some uncertainty over the agenda item Equity Instruments - Impairment and Recycling proposed by EFRAG. The member suggested it would be useful to review EFRAG’s final advice to the European Commission before deciding whether to present the advice to ASAF.

(c) the AOSSG member noted that members of the AOSSG generally supported the proposed October agenda topics, although one member had expressed doubts about discussing Dynamic Risk Management at the October meeting, as the AOSSG member did not consider the project was a priority.

(d) the AOSSG member also expressed scepticism about the inclusion of the Discussion Paper *Financial Instruments with Characteristics of Equity*, noting that the Discussion Paper on this topic would still be open for comment during the October meeting. Instead, that member recommended an update on the Goodwill and Impairment project, or a discussion on the Board’s upcoming research project on Extractive Industries.

(e) another AOSSG member suggested that ASAF could hold a private session where ASAF members could discuss the status of implementation of the Board’s recent Standards and application issues in their various jurisdictions.

94. The OIC member noted that the Disclosure Initiative - Targeted Standards-level Review of Disclosures project is projected to be completed by the time of the October 2018 ASAF meeting, and asked if this could be presented at the ASAF meeting.

95. In response the staff noted:

(a) the Dynamic Risk Management project would not be included on the October 2018 ASAF agenda.

(b) as regards the Discussion Paper *Financial Instruments with Characteristics of Equity*, previous feedback from ASAF members was that it is helpful for ASAF members to have an opportunity to share and compare preliminary views on a Discussion Paper. Consequently, the staff did not plan to prepare papers but instead to allow ASAF members to exchange initial tentative views.

(c) the staff would provide an update on the Goodwill and Impairment and Extractive Activities projects as part of the project update session.

(d) as regards sessions regarding new Standards, the October 2018 meeting of the International Forum of Accounting Standard Setters (IFASS) will occur the day before the ASAF meeting and the draft agenda for that meeting includes this topic. The staff do not wish to duplicate topics between meetings.

(e) The staff agreed to present in the project update session a general update on the Targeted Standards-level Review of Disclosures.