

Joint FASB-IASB Education Meeting

Meeting Summary

September 2022

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Overview

The FASB and the IASB held a one-day joint education meeting on 30 September 2022. The following items were discussed:

Goodwill and Impairment (IASB) and Identifiable Intangible Assets and Subsequent Accounting for Goodwill (FASB)

The IASB has, and the FASB had, on their respective agendas projects covering the accounting for goodwill and intangible assets acquired in a business combination. The purpose of this meeting was to provide an opportunity for FASB and IASB members to discuss the status of the respective projects; the subsequent accounting for goodwill—including the FASB’s progress with developing an amortisation-with-impairment model and recent decision to deprioritise and remove the project from its technical agenda, and the IASB’s research on this topic; and the redeliberations of the IASB in relation to disclosures about business combinations. FASB members updated the IASB as to why they had removed the project from the agenda. One of the main reasons why the FASB could not agree on a way forward was that they did not have a clear objective as to whether the project was to reduce cost or to increase benefits. The IASB Chair highlighted that the IASB would have to consider the objective of their project before making a decision on amortisation in November. The boards discussed whether the impairment model could be improved and whether some intangibles could not be separated from goodwill. A FASB member asked whether the IASB would be prepared to split the amortisation part of the project from the disclosure part of the project if they ran into similar difficulties as the FASB. The IASB Chair confirmed that they are prepared to do so if necessary. The other main discussion point was the exemption the IASB tentatively decided to provide with regard to disclosures that are commercially sensitive.

Disaggregation-related projects

Both the IASB and the FASB are currently undertaking, or will undertake, projects whose objectives include providing users of financial statements with more disaggregated information. The purpose of this meeting was to provide both boards with an opportunity to share comments and ask questions about these projects. The boards discussed their projects on the statement of cash flows; the FASB has already started whereas the IASB has only just added a research project. They discussed investor calls for more disaggregation and more information about direct cash flows. They also discussed income statement disaggregation, including the difficulty of defining unusual items. A suggestion was made by a FASB member that this was better left for management commentary.

Digital Assets

The boards discussed the results of the FASB’s research and outreach related to digital assets, which led the FASB to add a project to its technical agenda—Accounting for and Disclosure of Crypto Assets. The IASB outlined its work and its decision not to add a project on cryptocurrencies and related transactions to its workplan. The discussion mainly focused on when to start addressing the crypto asset issue, particularly whether the boards should act now while the issue is not pervasive (i.e. leading the market) or wait until it becomes pervasive (i.e. following the market). There were strongly held, but opposite, views within the IASB about whether the IASB should start a project.

2021 Agenda Consultation (FASB) and Third Agenda Consultation (IASB)

Both the IASB and the FASB have recently finalised their agenda consultations. The purpose of this meeting was to provide both boards with an opportunity to share comments and ask questions about these consultations. The FASB’s new project on software costs sparked some interest among IASB members. The IASB Chair noted that both boards will look into issues around intangibles and cash flow statements and that

US GAAP and IFRS are not converged for those areas. He said it would be good to exchange information between the boards on these projects, keeping the broader constituency of both boards in mind.

Goodwill and Impairment (IASB) and Identifiable Intangible Assets and Subsequent Accounting for Goodwill (FASB)

Cover Paper (Agenda Paper 18)

The IASB has, and the FASB had, on their respective agendas projects covering the accounting for goodwill and intangible assets acquired in a business combination.

The purpose of this meeting was to provide an opportunity for FASB and IASB members to discuss:

- The status of the respective projects
- The subsequent accounting for goodwill—including the FASB’s progress with developing an amortisation-with-impairment model and recent decision to deprioritise and remove the project from its technical agenda, and the IASB’s research on this topic
- The redeliberations of the IASB in relation to disclosures about business combinations.

The IASB and the FASB were not asked to make decisions at this meeting.

FASB: Recent Project Developments (Agenda Paper 18A)

The FASB staff brought the following topics to the FASB for deliberation:

- Amortisation of goodwill
- Goodwill impairment model
- Accounting for identifiable intangible assets
- Presentation of goodwill amortisation and impairment losses in the financial statements

The FASB provided the following leanings:

- An entity should amortise goodwill on a straight-line basis.
- An entity can amortise goodwill over a 10-year default amortisation period or it can elect another amortisation period if that period can be justified based on acquisition facts and circumstances (subject to a cap of 25 years)
- An entity would not be permitted to reassess the amortisation period
- Customer relationships that are not separable should be subsumed into goodwill
- Goodwill should continue to be tested for impairment at the reporting unit level when indicators exist (minimum annual test requirement would be removed)
- Goodwill amortisation and impairment losses should be presented as separate line items in the same location in the income statement

At its meeting on 15 June 2022, the FASB reviewed the package of leanings provided to date and decided to deprioritise and remove the project from its technical agenda.

Discussion

FASB members updated the IASB as to why they had removed the project from the agenda. One of the main reasons why the FASB could not agree on a way forward was that they did not have a clear objective as to whether the project was to reduce cost or to increase benefits. The IASB Chair highlighted that the IASB would have to consider the objective of their project before making a decision on amortisation in November.

Some IASB members highlighted that stakeholders would prefer the accounting frameworks to remain converged with regard to goodwill, i.e. retain impairment-only in both frameworks. However, the focus should not be on convergence but on providing better information to stakeholders. IASB and FASB members had mixed views as to whether amortisation would indeed provide better information.

Proponents of impairment-only for goodwill cited investor groups who said that the annual impairment test was a good indicator as to whether an acquisition had been successful, and those groups therefore did not ask for amortisation. It would be difficult to compensate for the loss of that information.

In general, the FASB's agenda consultation did not reveal a big interest in subsequent measurement of goodwill. Some said that amortisation was better information in theory, but in practice an appropriate amortisation period cannot be determined. In addition, the difference between market values of companies and their book values was big enough as it was, even without amortisation of goodwill.

IASB members asked whether the FASB had looked into ways to improve the impairment testing for goodwill. FASB members responded that they had but there was no clear answer. With regard to disclosures to improve information on goodwill impairment, FASB members said that the project did not get that far. As far as the research went, there were no evident disclosure requirements that would have been cost-beneficial.

One IASB member asked whether the FASB had discussed customer relationships and whether they could be separated from goodwill. A FASB member responded that their agenda consultation had shown that stakeholders thought these are not separable and should be subsequently measured together with goodwill.

IASB: Subsequent accounting for goodwill (Agenda Paper 18B)

Discussion Paper DP/2020/1 *Business Combinations—Disclosures, Goodwill and Impairment* set out the preliminary view not to reintroduce amortisation and instead retain the impairment-only approach. The DP asked for feedback that provides new practical and conceptual arguments, together with evidence for these arguments. The IASB asked stakeholders whether their views depend on whether the outcome would be consistent with US GAAP.

Respondents' views on reintroducing amortisation remain mixed. Many respondents agreed with the preliminary view but many also disagreed, saying amortisation of goodwill should be reintroduced. The agenda paper sets out a summary of feedback received, reasons for reintroducing amortisation and reasons for retaining the impairment-only approach.

Since the last joint FASB-IASB meeting, the IASB staff conducted further research on the useful life of goodwill and on transition to an amortisation-based model. The agenda paper provided the detail of that research.

IASB: Disclosures about business combinations (Agenda Paper 18C)

The DP set out the following preliminary views:

- Add additional disclosure objectives to IFRS 3 that would require entities to disclose information that would help users of financial statements understand:
 - The benefits an entity expected from a business combination when agreeing the price to acquire that business
 - The extent to which management's objectives are being met
- Require entities to disclose in the year of a business combination, the strategic rationale and objectives for that business combination and the metrics management plan to use to monitor achievement of those objectives
- In subsequent years, disclose management's review of the entity's performance against those objectives

- The information that would be disclosed is the information an entity's Chief Operating Decision Maker (CODM) is reviewing to assess the performance of the business combinations that the CODM is reviewing
- Require entities to disclose in the year of a business combination quantitative information about the synergies expected as a result of the business combination

Many respondents, including almost all users, agreed with the preliminary views. However, many respondents, including almost all preparers, disagreed. Respondents identified practical challenges with the preliminary views. The agenda paper provides detail of that feedback.

The IASB staff provided an overview of the practical concerns raised in response to the DP, summary of feedback received on the management approach and the location of the information.

In October 2021, the IASB tentatively decided that, based on the *Conceptual Framework*, information can be required in financial statements about the benefits an entity's management expects from a business combination and the extent to which management's objectives are being met. However, in October 2021, the IASB also acknowledged that there may be practical reasons for not proceeding with some or all of the preliminary views.

In Q4 2021 and Q1 2022, the IASB staff tested examples illustrating the information an entity would disclose applying the preliminary views. The IASB staff tested the examples with various stakeholders, including members of the IASB's consultative groups. The IASB discussed various alternatives to its preliminary views that may help better balance the cost and benefits and result in the IASB proceeding with an amended version of its preliminary views.

In April 2022, the IASB discussed two variables that can be adjusted to better balance the costs and benefits of any proposed requirements:

- The population of business combinations for which information would be disclosed
- The amount of information to be disclosed for each affected business combination

The IASB is expected to make a tentative decision as to how to proceed with improving disclosures about the subsequent performance of business combinations and expected synergies at its September 2022 meeting.

IASB: Staff examples (Agenda Paper 18D)

This agenda paper contained staff examples illustrating what the IASB staff expect an entity might disclose if the IASB were to make its preliminary views in the DP a requirement in IFRS Standards.

IASB: September 2022 decisions on disclosures about business combination (Agenda Paper 18E)

This agenda paper gave information about decisions made by the IASB in its September 2022 meeting.

In particular, the IASB tentatively decided to require disclosure about the objectives, metrics, targets and actual performance of business combinations for only a subset of business combinations. A subset would be intended to capture strategically important business combinations (that is a business combination, which if it fails to achieve its objective(s) would seriously jeopardise the entity's achievement of its strategy).

The IASB also tentatively decided to exempt an entity from disclosing, in specific circumstances, information about the objectives, metrics and targets for a business combination and quantitative information about expected synergies.

Discussion

The IASB papers were discussed together.

The main discussion point was the exemption the IASB tentatively decided to provide with regard to disclosures that are commercially sensitive. IASB members asked whether the FASB had discussed a similar exemption. FASB members responded that they had not for the goodwill project, but they discussed it in other projects like segments. They found that such an exemption was difficult to operationalise as it is open for abuse. It would also be difficult for auditors and regulators to enforce.

IASB members agreed with that and said that the intention was to set a very high hurdle, almost like a rebuttable presumption, for this exemption. The exemption was also only available for forecast figures and not for actual figures.

There could also be a sunset clause where management would have to state how long they are intending to apply the exemption. If that period were to be extended, management would have to give compelling reasons for this. One IASB member said that in general, disclosures around the exemptions would have to be structured in a way that makes it almost impossible to abuse the exemption. One IASB member reminded the participants that the proposed exemption will be exposed and shareholders will be able to comment.

On a different note, a FASB member asked whether the IASB would be prepared to split the amortisation part of the project from the disclosure part of the project if they ran into similar difficulties as the FASB. The IASB Chair confirmed that they are prepared to do so if necessary.

Disaggregation-related projects

Cover paper (Agenda Paper 21)

Both the IASB and the FASB are currently undertaking or will undertake projects whose objectives include providing users of financial statements with more disaggregated information. The purpose of this meeting was to provide both boards with an opportunity to share comments and ask questions about these projects. The boards were not asked to make any decisions.

FASB: Statement of Cash Flows (FASB Research Project) (Agenda Paper 21A)

In June 2021, the FASB staff published *Invitation to Comment, Agenda Consultation (2021 ITC)* to solicit broad stakeholder feedback about the future standard-setting agenda of the FASB. Chapter 1 *Disaggregation of Financial Reporting Information* requested stakeholder feedback on improving the relevance of the statement of cash flows.

Investors and other users generally agreed that greater disaggregation of the statement of cash flows should be a priority for the FASB to help them better perform their analyses. At its June meeting, the FASB Chair added a project to the FASB research agenda to explore targeted improvements to the statement of cash flows to provide additional decision-useful information for investors and other allocators of capital.

The staff plans to conduct research and outreach in a variety of areas to better understand the relative priority for different potential improvements (such as working capital reconciliations and other direct method supplementary information) as well as the costs and feasibility of implementing certain improvements.

Discussion

The IASB Chair reported that during the World Standard-setters Conference it became clear that participants held diverse views as to the scope of the project on statement of cash flows which has only recently been added to the IASB's research project pipeline. There was a question as to why the boards are not conducting the project as a joint project, however one IASB member said that it is beneficial that the boards are at different stages of the project so they can learn from each other's discussions.

The question as to whether to mandate the direct or indirect method for preparing the cash flow statement will be polarising. An IASB member said that the stakeholders' preference depends on the jurisdiction. One option was to retain the indirect method and complement this by disclosure of some items that would have been presented if using the direct method such as cash paid to suppliers or cash paid for labour.

It was also noted that the population of what might be seen as cash has changed and an IASB member asked whether the FASB will look at that as part of this project. The FASB Chair replied that there is a separate project on crypto currencies but that project will also consider the impact on the cash flow statement.

IASB: Primary Financial Statements—Project Overview (Agenda Paper 21B)

In March 2021, the IASB began redeliberating the proposals in response to feedback received on the Exposure Draft ED/2019/7 *General Presentation and Disclosures*. The IASB has made key decisions in relation to key topics of subtotals and management performance measures (MPMs) and is progressing its work on disaggregation. The agenda paper detailed the following main areas in the ED updated to reflect the IASB's tentative decisions to July 2022:

- Subtotals
- MPMs
- Disaggregation
- Disclosure of operating expenses by nature
- Unusual income and expenses

Discussion

IASB members highlighted that digital reporting was an important part of the project and asked FASB members whether that was similarly true for the FASB project on income statements. The FASB confirmed this but said that they have difficulties tagging segment disclosures, for example, as there is diversity in measurement due to the management approach. The IASB Chair said that in general the traditional 'paper first – digital second' approach may have to be reconsidered.

There was a short discussion on unusual items and how challenging the topic was for the IASB. IASB members noted that continuing with this topic would have consumed too many resources and it was uncertain whether a solution as to how to distinguish unusual items from usual items could actually be achieved. A FASB member noted that this information should be in management commentary rather than the primary financial statements.

FASB: Disaggregation—Income Statement Expenses (DISE)—Project Background and Next Steps (Agenda Paper 21C)

This paper provided an overview of the background and history of the FASB's Disaggregation—Income Statement Expenses project (formerly named the Financial Performance Reporting—Disaggregation of Performance Information or "FPR" project) and provided an update on recent feedback received and next steps in the project.

There was no significant discussion on that topic.

FASB: Targeted Improvements to Income Tax Disclosures—Overview (Agenda Paper 21D)

The FASB project on Targeted Improvements to Income Tax Disclosures aims to improve the transparency and decision usefulness of income tax disclosures. The focus of the project is primarily on information about income taxes paid and the rate reconciliation table.

Discussion

One IASB member asked whether the proposed break down of income tax paid by geography would also reconcile to the income by jurisdiction. FASB members responded that it would be too challenging to require disaggregation of the income by jurisdiction as some revenue is incurred across multiple jurisdictions.

FASB: Segment Reporting (SEGRPT)—Standard Setting—Segment Reporting—Overview and Decisions Reached to Date (Agenda Paper 21E)

Topic 280 *Segment Reporting* and IFRS 8 *Operating Segments* are substantially converged standards. The FASB's project is focused on making certain improvements to the disclosure requirements in Topic 280. The FASB completed its initial deliberations in July 2022.

The purpose of this session was to provide IASB members with an update on the project and key amendments in the forthcoming proposed Update.

Discussion

An IASB member noted the use of the word "significant" in relation to disclosure about segment expenses and wondered whether the term would be defined by the FASB given the recent discussions about this term in the ISSB's exposure drafts. FASB members responded that it would not be defined but if the Chief Operating Decision Maker sees a report about the expenses on a regular basis, they are deemed significant.

Digital Assets

FASB: Accounting for and Disclosure of Crypto Assets Topic Project Update (Agenda Paper 12A)

This paper summarised the results of the FASB's research and outreach related to digital assets. Specifically, the paper summarised the information the staff gathered during its pre-agenda research for purposes of evaluating whether the FASB's standard-setting agenda criteria were met, which led the FASB to add a project to its technical agenda in May 2022 to address the Accounting for and Disclosure of Digital Assets (renamed to the Accounting for and Disclosure of Crypto Assets in August 2022). The paper also summarised the scope criteria considered by the FASB at its recent decision-making meeting in August 2022, and the related stakeholder feedback on those criteria.

IASB: Digital Assets—IASB consideration of cryptocurrencies and related transactions (Agenda Paper 12B)

The IFRS Interpretations Committee published an agenda decision titled *Holding of Cryptocurrencies* in June 2019. The agenda decision sets out that if the entity holds the cryptocurrency for sale in the ordinary course of business an entity applies IAS 2 and if not, the entity applies IAS 38. An entity does not account for holdings of cryptocurrencies as cash or a financial asset. The agenda decision also sets out which disclosure requirements apply.

In March 2021, the IASB published Request for Information (RFI) *Third Agenda Consultation*. The RFI asked stakeholders about new financial reporting issues that could be given priority in the IASB's work plan. As part of that process the IASB set out possible projects the IASB could undertake on cryptocurrencies and related transactions.

Most respondents rated a potential project on cryptocurrencies and related transactions as high priority, some rated it as medium priority and a few rated it as low priority.

Based on the feedback received, the IASB decided not to add a project on cryptocurrencies and related transactions to its workplan. However, the IASB continues to monitor developments in this area.

Discussion

The papers were discussed together.

The discussion mainly focused on when to start addressing the crypto asset issue, particularly whether the boards should act now while the issue is not pervasive (i.e. leading the market) or wait until it becomes pervasive (i.e. following the market). There were different views as to whether the issue was already pervasive with the IASB Chair saying it is not and an IASB member disagreeing (citing the fact that the IFRS Interpretations Committee had previously taken on a project on crypto assets, which it would only do if the issue is pervasive).

The IASB Chair said that a project should only be added if there was a gap in IFRS Accounting Standards for these assets or, if there is no gap, whether the information produced by IFRS Accounting Standards is confusing. He warned that issuing guidance before regulators do (like the Financial Stability Board) could mean that IFRS guidance potentially conflicts with regulator guidance, which should be avoided. Furthermore, the two projects on intangibles and on cash flow statements in the IASB's research pipeline would be well placed to address some of the issues that arise with crypto assets. The IASB member in favour of adding a project now said that in his view, there was no gap in IFRS Accounting Standards, but the information resulting from applying IFRS Accounting Standards to crypto assets does not make sense. He also noted that the IASB started addressing ESG-linked features in financial instruments which are also not seen as pervasive yet but will become pervasive in the future.

One IASB member asked whether the FASB had discussed derecognition of crypto assets. The FASB staff replied that the main focus was measurement and disclosure. As it is an intangible asset in the FASB's view, derecognition would follow the guidance for intangible assets and not that for financial instruments.

Another IASB member asked whether the Federal Reserve (Fed) had been consulted by the FASB on the project. The FASB Chair confirmed that the Fed and the SEC are informed of the project but have not provided a formal response yet.

2021 Agenda Consultation (FASB) and Third Agenda Consultation (IASB)

Cover paper (Agenda Paper 24)

Both the IASB and the FASB have recently finalised their agenda consultations. The purpose of this meeting was to provide both boards with an opportunity to share comments and ask questions about these consultations. The boards were not asked to make any decisions.

FASB: Overview (Agenda Paper 24A)

This paper set out the background for the FASB's agenda consultation together with an overview of respondents. It also illustrated which areas have been identified as high priority by respondents and which as low priority.

The agenda paper gave detail on the following areas:

- Disaggregation of financial information—investors and other financial statement users cited a general need for greater disaggregation of a range of financial reporting information to better understand the performance of the company and assess future operating results, cash flows, and risks

- Emerging areas in financial reporting—stakeholders cited a need for the FASB to maintain and improve the relevancy of US GAAP by addressing financial reporting for several emerging areas
- Reduction of unnecessary complexity in US GAAP—stakeholders provided feedback that there are specific areas of US GAAP that should be revisited to reduce unnecessary cost and complexity in the system
- Improvements to FASB standard-setting processes—stakeholders provided feedback that enhancements and education about certain FASB standard-setting processes would be helpful to increase transparency and communication

The following actions have been taken in response to the feedback received on the agenda consultation:

- Projects added to the technical agenda:
 - Accounting for and Disclosure of Crypto Assets (formerly Accounting for and Disclosure of Digital Assets)
 - Accounting for and Disclosure of Software Costs
 - Accounting for Environmental Credit Programs
- Refined scope and objective of existing projects on the technical agenda:
 - Disaggregation—Income Statement Expenses (formerly the Financial Performance Reporting— Disaggregation of Performance Information project)
 - Targeted Improvements to Income Tax Disclosures (formerly the Disclosure Framework: Disclosure Review—Income Taxes project)
- Removed projects from the technical agenda:
 - Consolidation Reorganisation and Targeted Improvements
 - Distinguishing Liabilities from Equity (Phase 2)
 - Identifiable Intangible Assets and Subsequent Accounting for Goodwill
 - Improving the Accounting for Asset Acquisitions and Business Combinations (Phase 3 of the Definition of a Business Project)
 - Lease Modifications (will be monitored as part of the post-implementation review (PIR))

The following projects were on the research agenda at the end of Q2 2022:

- Accounting for and Disclosures of Intangibles
- Accounting for Exchange-Traded Commodities
- Accounting for Financial Instruments with Environmental, Social, and Government (ESG)-Linked Features
- Accounting for Government Grants, Invitation to Comment (ITC)
- Consolidation for Business Entities
- Key Performance Indicators for Business Entities
- Statement of Cash Flows

FASB: Consultation Report (Agenda Paper 24B)

This agenda paper reproduced the 2021 FASB Agenda Consultation Report that was published in June 2022.

IASB: Overview (Agenda Paper 24C)

In March 2021, the IASB published Request for Information (RFI) *Third Agenda Consultation*. The IASB sought views on:

- The strategic direction and balance of the IASB's activities

- The criteria for assessing the priority of financial reporting issues that could be added to the IASB's work plan
- New financial reporting issues that could be given priority in the IASB's work plan

The agenda paper set out the IASB's activities and questions asked in the RFI, as well as key considerations. It went on to give an overview of the respondents by stakeholder type and region.

The IASB took the following actions in response to the feedback received:

- After considering cross-cutting themes, such as implications of connectivity with the International Sustainability Standards Board (ISSB), and consistent with stakeholders' feedback, the IASB decided to begin no new activities within the current scope of its work and to leave its current level of focus on its main activities largely unchanged
- The IASB decided not to make any changes to the list of criteria for assessing the priority of financial reporting issues but to proceed with the list as proposed in the RFI. The IASB used the criteria to assess the priority of potential projects suggested by respondents
- The IASB's added the following new projects:
 - Intangible Assets—this project will aim to review IAS 38 comprehensively
 - Statement of Cash Flows and Related Matters—as part of the research phase of such a project, the IASB will consider whether the project should aim to review IAS 7 comprehensively or make more targeted improvements
 - Climate-related Risks in the Financial Statements—this project will consider whether and, if so, what narrow-scope actions might be needed in relation to accounting for climate-related risks in the financial statements
 - Projects on Pollutant Pricing Mechanisms and Operating Segments were added to the reserve list
- The IASB decided not to reprioritise projects on its current work plan

IASB: Snapshot (Agenda Paper 24D)

This paper reproduced the IASB's Snapshot document that was published on the Third Agenda Consultation.

IASB: Feedback Statement (Agenda Paper 24E)

This paper reproduced the IASB's Feedback Statement that was published on the Third Agenda Consultation.

Discussion

The papers were discussed together.

IASB and FASB members discussed some of the projects the boards had taken on as a result of the agenda consultation and also informed each other about what has not been taken on. It was noted that issues on intangible assets seemed important for stakeholders of both boards. Especially the FASB's new project on software costs sparked some interest among IASB members.

The IASB Chair noted that both boards will look into issues around intangibles and cash flow statements. He noted that US GAAP and IFRS are not converged for those areas, however it would be good to exchange information between the boards on these projects, keeping the broader constituency of both boards in mind.