Deloitte. IAS Plus

IASB

Meeting Summary

March 2023

This is a compilation of the summary available on IAS Plus at:
https://www.iasplus.com/en/meeting-notes/iasb/2023/march/
The meeting agenda and all of the staff papers are available on the IASB website:
https://www.ifrs.org/news-and-events/calendar/2023/march/international-accounting-standards-board/

Overview

The IASB met in London from 20-23 March 2023. The following topics were discussed:

Climate-related risks in the financial statements: The IASB commenced its project on climate-related risks in the financial statements. Particularly, the staff presented the origins, purpose and planned initial steps for the project. The IASB was not asked to make any decisions on the project.

Work plan update: In this session, the staff provided an update on the IASB's work plan since the last update in December 2022. The purpose of the session was to provide a holistic view of the IASB's technical projects to support decisions about whether to add or remove projects, as may be discussed in individual project papers and assessment of overall progress on the work plan, including project prioritisation and timing. No decisions were made.

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures: In this session, the IASB continued its redeliberations of the relationship of the new IFRS Accounting Standard with the *IFRS for SMEs* Accounting Standard. The IASB decided to assess separately the costs and benefits for subsidiaries applying the reduced disclosure Standard and the costs and benefits for SMEs applying the *IFRS for SMEs*.

Equity Method: In this session, the IASB discussed three application questions on its project to revise IAS 28. The IASB decided to propose that, when applying IAS 28, an investor purchasing an additional interest in an associate while retaining significant influence would recognise any difference between the cost of the additional interest and its additional share in the net fair value of the associate's identifiable assets and liabilities either as goodwill, or as a gain from a bargain purchase. The IASB also decided to propose that an investor, in applying IAS 28, would recognise the full gain or loss on all transactions (not just those in the scope of IFRS 10) with its associate, and to propose improvements for the disclosure requirements when an investor recognises the full gain or loss on transactions with its associate.

Primary Financial Statements: The IASB decided on detailed revisions to the Exposure Draft in the areas of disclosure of operating expenses by nature in the notes; management performance measures (MPMs)—rebuttable presumption; MPMs—relationship with the requirements of other IFRS Accounting Standards; MPMs—tax disclosure; issues related to categories in the statement of profit or loss; and issues related to the proposals for entities with specified main business activities.

Post-implementation Review of IFRS 15: The IASB discussed which questions to include in the forthcoming Request for Information. In particular, the IASB decided to include questions on the standard as a whole and the convergence with US GAAP; the five steps of revenue recognition; principal versus agent considerations; licensing; disclosures; transition; and the interaction with IFRS 9, IFRS 10 and IFRS 16.

Business Combinations—Disclosures, Goodwill and Impairment: In this session, the IASB made decisions about some of the IASB's preliminary views regarding reducing the cost and complexity of the impairment test, and some aspects of the proposed package of disclosure requirements in IFRS 3.

An analysis of how the IASB's work plan changed based on the decisions made at the meeting is available on https://www.iasplus.com/en/news/2023/03/iasb-issb-work-plan-1.

Climate-related Risks in the Financial Statements

In this session, the IASB commenced its project to address climate-related risks in financial statements.

Project commencement (Agenda Paper 14)

The purpose of this meeting was for the IASB to start the Climate-related Risks in the Financial Statements project and discuss the initial work the staff will undertake. The IASB was not asked to make any decisions.

A recap of the origins of the project

Over the past few years, the IASB has been hearing from users of financial statements that:

- Climate-related risks are often perceived as remote, long-term risks and may not be appropriately considered in the financial statements
- Users need better qualitative and quantitative information about the effect of climate-related risks on the carrying amounts of assets and liabilities reported in the financial statements

In response to the feedback on the Agenda Consultation, the IASB added to its maintenance project pipeline a narrow-scope Climate-related risks in the Financial Statements project that will:

- Research the causes of stakeholders' concerns about inconsistent application and insufficient information
- Research whether the IFRS Foundation's educational material is helping, and whether the International Sustainability Standards Board's (ISSB) future IFRS Sustainability Disclosure Standard on climate-related disclosures would help to address these concerns
- Consider whether and, if so, what narrow-scope actions might be needed

Since the ISSB published its Exposure Drafts, stakeholders have been asking for greater clarity about how sustainability-related risks and opportunities disclosed in applying IFRS Sustainability Disclosure Standards would connect with and interact with the financial statements.

Purpose of the project

The purpose of this project is to explore whether and, if so, how financial statements can better communicate information about climate-related risks.

The outcomes of this project will depend on the underlying causes of user concerns. Examples might be:

- Unclear requirements in Accounting Standards
- Lack of compliance
- Insufficient disclosure of the effects of climate-related risks
- User information needs beyond the objective of financial statements

Initial work

In commencing the project, the staff will hold discussions with the IASB's consultative bodies and other external stakeholder groups and organisations to explore:

- The nature of perceived shortcomings with financial statements in communicating information about climate-related risks
- Requirements in Accounting Standards that might not be sufficiently clear about whether and how the effects of climate-related risks should be considered when preparing an entity's financial statements—even when considered in conjunction with the educational material
- Reasons for entities arguably not considering (or not adequately considering) the effects of climate-related risks when applying the requirements
- Possible courses of action available to the IASB together with the pros and cons of each course of action

IASB discussion

Approval was expressed amongst IASB members over the direction of the project as well as the drafting and approach of the paper. Several members commented on the scope of the paper, emphasising in particular that this project was narrow in scope and would not fundamentally change the standards. They also warned that the staff must avoid 'scope creep'.

One IASB member stated, and others agreed, that the purpose of the project is to identify the cause of the issues identified with regards to climate risk reporting. It was noted that the underlying issues with regards to climate risk reporting were not obvious and the cause may not just impact climate related risks.

Members also wished to make clear that the project being undertaking was not promising action to be taken by the IASB. Instead, the project purpose is to understand the issues surrounding climate-related risk reporting in order for the IASB to decide whether and what changes should be made.

One member added that the standards should also be relevant to all environmental, social and governance (ESG) risks that might arise in the future in order to avoid needing to make further adjustments as other risks arise and become material to users.

Work plan

In this session, the staff provided an update on the IASB's work plan since the last update in December 2022.

Update (Agenda Paper 8)

In this session, the staff provided an update on the IASB's work plan since the last update in December 2022. The purpose of the session was to provide a holistic view of the IASB's technical projects to support decisions about whether to add or remove projects, as may be discussed in individual project papers and assessment of overall progress on the work plan, including project prioritisation and timing.

The IASB was not asked to make any decisions.

Completed Projects

In December 2022, the IASB published its project report and feedback statement concluding the post-implementation Review (PIR) of the classification and measurement requirements in IFRS 9

In March 2023, the IASB published its project report and feedback statement on the Disclosure Initiative—Targeted Standards-level Review of Disclosures project.

New Projects

The Climate-related Risks in the Financial Statements project was made active (that is, moved from the maintenance project pipeline to the maintenance project work plan).

At future meetings, the IASB will discuss the start of projects on its pipeline. Consistent with discussions as part of the IASB's Third Agenda Consultation, the start date of these projects depends on stakeholder and IASB capacity, and the nature of the projects. IASB pipeline projects are:

- Intangible assets
- Statement of cash flows and related matters
- Amortised cost measurement
- Sale and leaseback of an asset in a single-asset entity (IFRS 10 and IFRS 16)

Expected project completions in the next six months

The staff expect that the IASB will issue the amendments for the following maintenance projects towards the end of May 2023:

- International Tax Reform—Pillar Two Model Rules
- Supplier Finance Arrangements

The staff expects that the IASB will issue the amendments for the Lack of Exchangeability project in August or September 2023.

Estimated publication date for consultation documents

The staff expect that the IASB will issue the following consultation documents over the next six months:

- Request for Information (RFI)—PIR of IFRS 15—Revenue from Contracts with Customers—July 2023
- RFI—PIR of impairment requirements in IFRS 9—Financial Instruments—June 2023

IASB discussion

One IASB member said that there has been feedback from stakeholders that the consultation period for the RFI on the PIR of IFRS 15 is not ideal and therefore, the sooner the RFI can be published, the better.

The Chair said that an initial review of the comment letters on the International Tax Reform project revealed requests for more changes. However, he reminded the staff that this project is only trying to address a specific problem and bring at least some transparency.

No decisions were made.

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures

In this session, the IASB discussed the relationship between the new Standard and the *IFRS for SMEs* Accounting Standard.

Relationship of the new IFRS Accounting Standard with the *IFRS for SMEs* Accounting Standard (Agenda Paper 31)

Background

At its June 2022 meeting, the IASB agreed on a project plan for redeliberating the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (ED) towards developing an IFRS Accounting Standard (Standard).

At the March 2023 meeting, the IASB continued its redeliberations of the relationship of the new IFRS Accounting Standard with the *IFRS for SMEs* Accounting Standard.

Objective

- Discuss the feedback on the interaction between the disclosure requirements proposed in the ED and the *IFRS for SMEs*
- Clarify the interaction between the forthcoming IFRS Accounting Standard (reduced disclosure Standard) and the *IFRS for SMEs*

Staff analysis

The staff summarised the below points with regard to the clarification of the ongoing relationship between the reduced disclosure Standard and the *IFRS for SMEs*:

- Why the IASB added this project to its work plan
- Developing the ED approach by using disclosure requirements in the *IFRS for SMEs*—tailored to reflect the recognition and measurement requirements of IFRS Accounting Standards
- The principles applied for reducing disclosure requirements—same principles the IASB used in assessing users' needs when it developed the *IFRS for SMEs*
- Responding to the feedback received on the ED, including: start with IFRS Accounting Standards; cost-benefit considerations; interaction between the reduced disclosure Standard and the *IFRS for SMEs*.

<u>Explain in the Basis for Conclusions:</u>

- In developing the ED, the IASB started with the disclosure requirements in the *IFRS for SMEs*
- In the future the reduced disclosure Standard will be updated as new and amended IFRS Accounting Standards are developed; the *IFRS for SMEs* will continue to be updated periodically
- Therefore, there will be separate consultations for updating the reduced disclosure Standard and the *IFRS for SMEs*
- Costs and benefits will be assessed separately for subsidiaries and SMEs that are not subsidiaries
- The reduced disclosure Standard and the *IFRS for SMEs* may have different disclosure requirements because of recognition and measurement differences, and assessment of costs and benefits

Staff recommendation

The staff recommended that the IASB assess separately the costs and benefits for subsidiaries applying the reduced disclosure Standard and the costs and benefits for SMEs applying the *IFRS for SMEs.*

IASB discussion

There was some discussion of the extent to which the disclosure requirements of the *IFRS for SMEs* could be leveraged when other IFRS Accounting Standards are updated. It was noted that this was likely to be most fruitful when the recognition and measurement requirements are equivalent. It was also pointed out that work on similar projects in other jurisdictions could also be leveraged, for example, from projects developing reduced disclosure requirements under local GAAP.

One member questioned the cost-benefit rationale for differences in disclosure requirements between the new Standard and the *IFRS for SMEs* in cases where the recognition and measurement requirements are equivalent. The ensuing discussion clarified that the benefit to SMEs and SMEs that are subsidiaries is likely to be similar as they have similar users of their financial statements. However, the cost is likely to be greater for SMEs that are not subsidiaries because they would be unable to leverage any group reporting disclosures. It was noted that SMEs that are subsidiaries are therefore less likely to adopt the *IFRS for SMEs*.

The staff agreed that they will conduct a scope review to reconsider if the subsidiaries should not be allowed to apply the *IFRS for SMEs*.

IASB decision

All IASB members agreed with the staff recommendation.

Equity Method

In this session, the IASB discussed three application questions on its project to revise IAS 28.

Cover paper (Agenda Paper 13)

The objective of the Equity Method project is to assess whether application questions with the equity method, as set out in IAS 28, can be addressed in consolidated and individual financial statements by identifying and explaining principles in IAS 28.

The purpose of this session was to ask the IASB to:

- Conclude its discussions on the application question: "How does an investor apply the equity method when purchasing an additional interest in an associate while retaining significant influence?"
- Decide which alternative (Alternative 1 'No elimination' with enhanced disclosure or Alternative 2 'Elimination') to propose to answer the application question: "How should an investor recognise gains or losses that arise from the sale of a subsidiary to its associate, applying the requirements in IFRS 10 and IAS 28?"
- Decide how to answer the application question: "Does an investor recognise deferred tax assets or liabilities on the differences between the fair value and the tax base of its share of the associate's identifiable assets and liabilities?"

Purchase of an additional interest in an associate while retaining significant influence (Agenda Paper 13A)

At its April 2022 meeting, the IASB started to discuss the application question: How does an investor apply the equity method when purchasing an additional interest in an associate while retaining significant influence?

This agenda paper set out the IASB discussions in developing the answer to this application question and asked the IASB if there are any further matters it wishes to discuss in relation to the application question.

Preferred approach

At its April 2022 meeting, the IASB discussed three approaches to answer the application question and asked the staff to continue exploring the following approach (referred to as the 'preferred approach').

After obtaining significant influence, an investor measures its additional interests in an associate as an accumulation of purchases. An investor recognises, at the date of purchasing an additional interest, any difference between the cost of the additional interest and its additional share in the net fair value of the associate's identifiable assets and liabilities as goodwill or as a bargain purchase.

Alternative approach

The IASB also asked the staff to consider the implications of applying the following second approach (referred to as the 'alternative approach'):

After obtaining significant influence, an investor measures its investment in the associate as a single asset. An investor measures its aggregated share of the associate's identifiable assets and liabilities at fair value and remeasures the cost of the investment at fair value at the date of purchasing an additional interest in an associate while retaining significant influence.

Previous IASB decisions

To develop the preferred approach, the IASB reached a tentative decision on how an investor measures the cost of an investment on obtaining significant influence, when the investor holds a previous interest in the associate. In addition to answering the application question, the IASB also reached tentative decisions on how an investor retaining significant influence would apply the preferred approach:

- When purchasing an additional interest in associate that is a bargain
- To other changes in the associate's net assets that change the investor's ownership interest
- When the investor purchases an additional interest after reducing the carrying amount of its interest to nil
- When disposing of an interest in associate while retaining significant influence

Staff recommendation

The staff recommended that the IASB proposes to answer the application question as follows:

"An investor purchasing an additional interest in an associate, while retaining significant influence, recognises any difference between the cost of the additional interest and its additional share in the net fair value of the associate's identifiable assets and liabilities as goodwill or as a bargain purchase."

IASB discussion

Several IASB members stated that they like the preferred approach. One IASB member mentioned that the preferred approach faithfully represents the performance and was consistent with the underlying principle of the equity method. He also mentioned that the alternative approach requires the investor to measure the previous interest each time it acquires an additional interest and accordingly recognise a gain/ loss which is not consistent with the other standards or the overall framework.

IASB decision

All IASB members voted in favour of the staff recommendation.

Perceived conflict between IFRS 10 and IAS 28 (Agenda Paper 13B)

At its September 2022 meeting, the IASB started to discuss application questions related to 'Transactions between an investor and its associate', in particular it discussed four alternatives to answering the application question: How should an investor recognise gains or losses that arise from the sale of a subsidiary to its associate, applying the requirements in IFRS 10 and IAS 28?

At its January 2023 meeting, the IASB continued discussing the following four alternatives:

- Alternative 1—'No elimination'—apply IFRS 10 to all contributions and sales
- Alternative 2—'Elimination'—apply IFRS 10 and then IAS 28 to all contributions and sales
- Alternative 3—'Mixture'—apply IFRS 10 depending on whether contributions and sales are an output of ordinary activities or not
- Alternative 4—'Reviving 2014 amendment'—apply IFRS 10 for contributions and sales of businesses, and IAS 28 for sales of assets

In particular, the IASB discussed further considerations of applying the four alternatives, and feedback from the accounting firms, Accounting Standards Advisory Forum (ASAF) and Global Preparers Forum (GPF).

At that meeting, the IASB asked the staff to:

- Continue exploring two of the four alternatives discussed at its September 2022 meeting to answering the application question
- Undertake outreach with users of financial statements
- Prepare a decision-making paper

The purpose of this session was to ask the IASB to consider the staff analysis of Alternative 1 and Alternative 2, and decide which of the alternatives to propose to answer the application question.

Staff recommendation

The staff recommended that the IASB propose amendments to:

- IAS 28 to require an investor to recognise the full gain or loss on all transactions with its associate (Alternative 1)
- IAS 24 to require an investor to disclose the gain or loss from transactions with its associate (in addition to the amount of the transactions)

IASB discussion

Several IASB members supported Alternative 1 with a caveat that they would need to understand what the enhanced disclosures would require.

One IASB member stated that it must be ensured that the disclosure requirements are not such that they undo the benefits of applying Alternative 1. It must also be considered that access to an associate's information is limited when drafting these requirements. Many IASB members agreed with this and mentioned that a cost-benefit analysis will be necessary when drafting the disclosure requirements. Many IASB members agreed that Alternative 1 was more cost effective than Alternative 2 and that Alternative 1 would result in cost savings, at least in the long run.

One IASB member mentioned that he can understand why elimination would make sense for certain companies but it was a narrow pattern and thus he agreed with the staff recommendation. He also mentioned that it was good that the focus of the assessment was only on associates for now.

Another IASB member who supported Alternative 1 said it was in line with the history of IAS 28 which removed proportionate consolidation and that Alternative 1 can be conceptually justified. Another IASB member supported Alternative 1 for its overall relative simplicity in application for companies over the longer term and in what information it provides for the investors.

One IASB member mentioned that he was hesitant to agree with Alternative 1 without the disclosures due to the negative effect on the earnings quality. He mentioned that if Alternative 1 is used, it would be good to see if there was any way to break out the single line in the financial statements to give better clarity, even if that is in the notes. Another IASB member pointed out that IFRS 12 already requires financial information on material associates. However, it was also pointed out by another IASB member that the post-implementation review of IFRS 10 and IFRS 12 indicated that this information was only provided for material associates and the actual output in the financial statements was not always in line with what the investors wanted.

One IASB member mentioned that they agree with Alternative 1 but a way to think further might be to use IFRS 12 as a starting point for disclosures rather than IAS 24. This is because IFRS 12 already had the right structure and split of materiality.

Another IASB member supported Alternative 1 stating that it would help reduce diversity in practice.

One IASB member pointed out that the Capital Markets Advisory Committee's concern was understanding if these transactions are at arm's length. In that case, it might be useful to provide gain/loss information at least for downstream transactions.

The Chair also pointed out that it would be good to consider if there was any room for improved presentation and not just disclosures. Currently, relevant information as required by IAS 28, IFRS 12, IAS 24 and others might be too scattered.

11 of the 13 IASB members directionally voted in favour of the staff recommendation, subject to the disclosure requirements.

Perceived conflict between IFRS 10 and IAS 28–feedback summary on the outreach activities undertaken with users (Agenda Paper 13C)

The purpose of this paper was to summarise feedback from the outreach with users on:

- Whether restricting gains or losses on transactions between an investor and its associate affect the quality of earnings reported when applying the equity method of accounting, and if so, how it affects users' decision-making, and whether it would be useful if an investor disclosed the gains or losses on transactions between itself and its associate
- Which of the alternatives provides users with the most useful information

IASB discussion

This paper was not discussed separately but covered along with Agenda Paper 13B.

Initial recognition of an investment in an associate–deferred taxes (Agenda Paper 13D)

The purpose of this session was to discuss the application question: Does an investor recognises deferred tax assets or liabilities on the differences between the fair value and the tax base of its share of the associate's identifiable assets and liabilities?

The equity method is applied from the date on which an investment becomes an associate or a joint venture. On obtaining significant influence, an investor applies paragraph 32 of IAS 28 and recognises its share of the net fair value of the investee's identifiable assets and liabilities. This may require the investor to adjust the carrying amounts of investee's assets and liabilities–for the purpose of this paper these adjustments are referred to as fair value asdjustments.

The application question is asking if the investor should recognise deferred tax assets or liabilities on the fair value adjustments. For example: an investor purchases a 25% interest in an entity and obtains significant influence. The investor determines that the fair value of an item of equipment is 400CU. The tax basis and the carrying amount in the investee's financial statements is 300CU. Does the investor recognise a deferred tax liability relating to its share of the fair value adjustment of 100CU?

Staff recommendation

The staff recommended the IASB proposes the following answer to the application question:

"An investor recognises deferred tax assets or liabilities on the differences between the fair value and the tax base of its share of the associate's identifiable assets and liabilities."

IASB discussion

This paper was not discussed in this meeting.

Primary Financial Statements

In this session, the IASB continued its deliberations of the Exposure Draft *General Presentation and Disclosures.*

Cover note and summary of feedback and redeliberations (Agenda Paper 21)

In September 2022, the IASB completed redeliberations on key aspects of the proposals in the Exposure Draft ED/2019/7 *General Presentation and Disclosures.* In this session, the IASB will discuss the feedback from targeted outreach conducted between September and December 2022 and continue discussing the proposals from the ED.

Disclosure of operating expenses by nature in the notes (Agenda Paper 21A)

Background

This session followed the IASB's tentative decision to revise the proposal in paragraph 72 of the ED. Paragraph 72 requires that an entity that presents operating expenses using the function of expense method disclose in the notes an analysis of total operating expenses by nature. At the July 2022 meeting, the IASB tentatively decided to revise the proposal to require that an entity disclose the amount of depreciation, amortisation and employee benefits included in each line item in the statement of profit or loss (the 'revised proposal'). The analysis and recommendations in the paper related to the proposed requirements for entities that present function line items in the statement of profit or loss.

Staff recommendation

The staff recommended that the IASB amend the specific disclosure requirement for operating expenses by nature to require an entity to disclose the amounts of depreciation, amortisation, employee benefits, impairments and write-downs of inventory included in each line item in the statement of profit or loss and confirm the proposal in the ED that the information required by the specific disclosure requirement for operating expenses by nature be given in a single note.

In addition, the staff recommended that the IASB provide application guidance clarifying that expense amounts would not be required and requiring that when the amounts disclosed include amounts that have been included in the carrying amount of assets, an entity provide a qualitative explanation indicating that the amounts disclosed include amounts that have been included in the carrying amount of assets. It would also disclose the assets in which those amounts have been included.

Lastly, the staff recommended that the IASB expand the scope of the proposed exemption from the general requirement to disaggregate material information, as tentatively agreed in January 2023, to include the disaggregation of amounts of nature expenses required to be disclosed by other IFRS Accounting Standards into the function line items in the statement of profit or loss in which they are included.

IASB discussion

IASB members were generally supportive of the staff's recommendation to expand the scope of specific disclosure requirement for operating expenses by nature to include impairments and write down of inventory for cost-benefit reasons. Some IASB members raised the concern that this proposal may extend the scope of this project while other IASB members said that it is always challenging requiring disclosure of specific items given IFRS are principle-based standards. Some IASB members asked the staff to confirm whether they believe that without the proposal explicitly requiring preparers to disclose impairments and write down of inventory that information may be lost. The staff clarified that there is a risk that information may not be presented when more line items are included together. Some IASB members asked the staff to include in the basis for conclusions (BC) that the rationale for this proposal is because users said that having information on these items would be useful and therefore, the additional costs would be justified. The IASB members have asked the staff to confirm whether impairment losses from financial instruments would be within the scope of this requirement. The staff clarified that they cannot preclude preparers from including them.

IASB members were supportive of the staff's recommendation to confirm the proposal in the ED that information required by the specific disclosure requirement for operating expenses by nature be given in a single note, given the precedent set in IFRS 16. Some IASB members would prefer the staff to provide clarity about the information required to be given to fulfil the specific disclosure requirement (i.e. expense amounts).

However, the staff said that they would not be able to rephrase the question given the cost is not defined. In addition, the staff said that this proposal is about providing further disaggregation on information already provided by companies.

IASB members were supportive of the staff recommendation to provide application guidance clarifying that expense amounts would not be required and requiring that when the amounts disclosed include amounts that have been included in the carrying amount of assets, an entity provide a qualitative explanation indicating that the amounts disclosed include amounts that have been included in the carrying amount of assets because feedback from stakeholders suggest that this proposal achieves the correct cost benefit balance.

IASB members raised concerns about adding specific disclosure requirements for operating expenses by nature for interim financial reporting periods given there was no consultation on this previously.

IASB decision

All IASB members agreed with the staff recommendation to amend the specific disclosure requirement for operating expenses by nature to require an entity to disclose the amounts of depreciation, amortisation, employee benefits, impairments and write-downs of inventory included in each line item in the statement of profit or loss

They also agreed to confirm the proposal in the ED that the information required by the specific disclosure requirement for operating expenses by nature be given in a single note.

All IASB members agreed with the staff recommendation to provide application guidance clarifying that expense amounts would not be required and requiring that when the amounts disclosed include amounts that have been included in the carrying amount of assets, an entity provides a qualitative explanation indicating that the amounts disclosed include amounts that have been included in the carrying amount of assets. It would also disclose the assets in which those amounts have been included.

12 of the 13 IASB members agreed with the staff recommendation to expand the scope of the proposed exemption from the general requirement to disaggregate material information, as tentatively agreed in January 2023. This is to include the disaggregation of amounts of nature expenses required to be disclosed by other IFRS Accounting Standards into the function line items in the statement of profit or loss in which they are included.

Management performance measures—rebuttable presumption (Agenda Paper 21B)

Background

This paper set out staff analysis and recommendations responding to feedback received in targeted outreach relating to the IASB's tentative decision to establish a rebuttable presumption that a subtotal of income and expenses included in public communications outside the financial statements represents management's view of an aspect of the entity's financial performance.

Staff recommendation

The staff recommended that the IASB explain in the application guidance for the rebuttable presumption that reasonable and supportable information for rebutting the presumption would be consistent with the way management uses or communicates the subtotal. For example, a subtotal being included in multiple locations with extensive analysis throughout an entity's public communications would not be consistent with the assertion that it does not communicate management's view. In addition, a subtotal being used internally by management would not be consistent with the assertion that it does not communicate management's view. Many subtotals included in public communications would not be consistent with asserting that none of those subtotals communicate management's view.

IASB discussion

IASB members were supportive of the staff's recommendation but some raised concerns around using the term 'reasonable and supportable' as a threshold. This is because this concept may not be applied consistently by preparers. These IASB members suggested that the rebuttable presumption can be used if management can demonstrate this is not how they use or communicate the subtotal. Other IASB members were cautious about being too prescriptive. The staff said that they are cognisant of changing the terminology as this may be perceived by users as a signal that a different threshold should be applied. Many IASB members thought the application guidance should not include the example in paragraph 43(c) that many subtotals included in public communications would not be consistent with asserting that none of those subtotals communicate management's view. IASB members did not consider this to be persuasive evidence and said it would be difficult to illustrate in the application guidance.

IASB decision

All IASB members agreed with the staff recommendation to explain in the application guidance for the rebuttable presumption that reasonable and supportable information for rebutting the presumption would be consistent with the way management uses or communicates the subtotal. For example, a subtotal being included in multiple locations with extensive analysis throughout an entity's public communications would not be consistent with the assertion that it does not communicate management's view. In addition, a subtotal being used internally by management would not be consistent with the assertion that it does not communicate management's view. Many subtotals included in public communications would not be consistent with asserting that none of those subtotals communicate management's view.

Management performance measures—Relationship with the requirements of other IFRS Accounting Standards (Agenda Paper 21C)

Background

This paper analysed the relationship between the proposals in the ED for management performance measures (MPMs) and the requirements in IAS 8 and IAS 34. This paper should be read in conjunction with Agenda Paper 21D Management performance measures—tax disclosures.

Staff recommendation

In relation to IAS 8, the staff recommended that the IASB confirm the proposed disclosure requirements in paragraphs 108(a) and 108(b) of the ED that if an entity changes the calculation of its MPMs, introduces a new MPM or removes a previously disclosed MPM from its financial statements, it shall disclose sufficient explanation for users of financial statements to understand the change, addition or removal and its effects. It would also disclose the reasons for the change, addition or removal.

Additionally, the staff recommended that the IASB amend the proposed disclosure requirement in paragraph 108(c) of the ED so that if an entity introduces a new MPM or changes an existing MPM, it need not provide the comparative information for the new or changed MPM if it is impracticable to do so.

Lastly, the staff recommended that the IASB add a requirement that if an entity does not provide comparative information about a new or changed MPM because it is impracticable to do so, the entity shall disclose the reason for not providing the comparative information for MPM and clarify that the choice of a MPM, including how it is calculated, is not an accounting policy as defined in IAS 8.

In relation to IAS 34, the staff recommended that the IASB confirm the consequential amendment to IAS 34 proposed in the ED to require in interim financial reports the MPM disclosures required by paragraph 106 of the ED and expand the proposed amendment to IAS 34 to include in the list of other disclosures required by paragraph 16A, the requirements of paragraph 108 of the ED that apply when there are changes to an entity's MPMs.

IASB discussion

IASB members were supportive of the staff proposal because although there may be instances where it is impracticable to provide comparative information, they considered that this is likely to be in limited circumstances only based on past experience. In general, management would want to provide comparative information. Other IASB members said that this is an extremely high hurdle. Some IASB members said that the clear disclosure should be provided in circumstances where it is not be possible to provide a comparative for the change in the MPM. However, other IASB members questioned whether providing comparatives is useful information if management have genuinely changed their measure. Some IASB members asked how this proposal would be applied if there was a fundamental change in the business. The staff clarified that absence of a comparative is acceptable (i.e. where there was no figure for the MPM in the prior year).

Some IASB members considered that the change in MPM is not a change in accounting policy but the rationale should be explained. The IASB members asked the staff to clarify this in the BC.

IASB members asked the staff to confirm what would happen if an entity provided MPMs in their annual financial statements but have not provided MPMs in their interim financial statements. The staff confirmed they consider if timing of public communication will create MPMs in a future meeting.

IASB members asked the staff to make it clear in the drafting whether the requirement should disclose MPMs from the most recent interim to the current interim reporting period.

IASB decision

In relation to IAS 8, all IASB members agreed with the staff recommendation to confirm the proposed disclosure requirements in paragraphs 108(a) and 108(b) of the ED that if an entity changes the calculation of its MPMs, introduces a new MPM or removes a previously disclosed MPM from its financial statements, it shall disclose sufficient explanation for users of financial statements to understand the change, addition or removal and its effects. It would also disclose the reasons for the change, addition or removal.

All IASB members agreed with the staff recommendation to amend the proposed disclosure requirement in paragraph 108(c) of the ED so that if an entity introduces a new MPM or changes an existing MPM, it does not need to provide the comparative information for the new or changed MPM if it is impracticable to do so.

All IASB members agreed with the staff recommendation to add a requirement that if an entity does not provide comparative information about a new or changed MPM because it is impracticable to do so, the entity shall disclose the reason for not providing the comparative information for MPMs and clarify that selecting an MPM, including how it is calculated, is not an accounting policy as defined in IAS 8.

In relation to IAS 34, all IASB members agreed with the staff recommendation to confirm the consequential amendment to IAS 34 proposed in the ED to require in interim financial reports the MPM disclosures required by paragraph 106 of the ED and expand the proposed amendment to IAS 34 to include in the list of other disclosures required by paragraph 16A, the requirements of paragraph 108 of the ED that apply when there are changes to an entity's MPMs.

Management performance measures—tax disclosure (Agenda Paper 21D)

Background

This paper set out staff analysis and recommendations on outstanding matters relating to the IASB's tentative decision on the ED to require an entity to disclose the tax effect and the effect on non-controlling interests (NCI) for each item disclosed in the reconciliation between a MPM and the most directly comparable subtotal or total specified by IFRS Accounting Standards. The outstanding matters are consideration of whether a wider range of approaches to calculating the income tax effect would improve the balance between costs and benefits and consideration of whether the IASB should require specific disclosure requirements for the approach(es) an entity uses to calculate the income tax effect.

This paper should be read in conjunction with Agenda Paper 21C Management performance measures—Relationship with the requirements of other IFRS Accounting Standards.

Staff recommendation

The staff recommended that the IASB retain the option in its tentative decision from May 2022 of calculating the tax effects of the reconciling items at the statutory tax rate(s) applicable to the underlying transaction(s) in the relevant jurisdiction(s).

In addition, the staff recommended that the IASB replace the alternative option in its tentative decision from May 2022 of adding an allocation of other income tax effects to the tax effects described in above with options to calculate the tax effects of the reconciling items on the basis of a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction(s) concerned calculate the tax effects of the reconciling items by another method that achieves a more appropriate allocation in the circumstances.

Furthermore, the staff recommended that the IASB confirm the requirement in paragraph 106(d) of the ED for an entity to disclose how it has determined the income tax effects for items reconciling an MPM to the most directly comparable subtotal or total specified by IFRS Accounting Standards and provide application guidance for each reconciling item if more than one method is used to calculate the tax effect.

Lastly, the staff recommended that the IASB revise the requirement in paragraph 108 of the ED to require an entity to disclose changes in MPMs to apply to changes to the calculation of the tax effects of reconciling items.

IASB discussion

IASB members supported the staff recommendation to retain the option of calculating the tax effects of the reconciling items at the statutory tax rate(s) applicable to the underlying transaction(s) in the relevant jurisdiction(s). That is because users have said this is useful information and this would provide additional flexibility to the preparers. IASB members have also asked the staff to confirm that mechanically there is a difference in how tax is computed in the interim financial reporting period and this is not a change in MPM.

IASB decision

All IASB members agreed with the staff recommendation to retain the option in its tentative decision from May 2022 of calculating the tax effects of the reconciling items at the statutory tax rate(s) applicable to the underlying transaction(s) in the relevant jurisdiction(s).

All IASB members agreed with the staff recommendation to replace the alternative option in its tentative decision from May 2022 of adding an allocation of other income tax effects to the tax effects described in above. This includes options to calculate the tax effects of the reconciling items on the basis of a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction(s) concerned or calculate the tax effects of the reconciling items by another method that achieves a more appropriate allocation in the circumstances.

All IASB members agreed with the staff recommendation to confirm the requirement in paragraph 106(d) of the ED for an entity to disclose how it has determined the income tax effects for items reconciling an MPM to the most directly comparable subtotal or total specified by IFRS Accounting Standards and provide application guidance for each reconciling item if more than one method is used to calculate the tax effect.

All IASB members agreed with the staff recommendation to revise the requirement in paragraph 108 of the ED to require an entity to disclose changes in MPMs to apply to changes to the calculation of the tax effects of reconciling items.

Issues for categories in the statement of profit or loss (Agenda Paper 21E)

Background

This paper set out the staff analysis and recommendations for outstanding issues for categories in the statement of profit or loss in the ED. This paper discussed classification of foreign exchange differences on liabilities that arise from transactions that do not involve only the raising of finance ('other liabilities') that are denominated in a foreign currency and the gain or loss on the net monetary position recognised applying IAS 29. This paper also discussed the income and expenses from specific hybrid contracts with host liabilities that arise from transactions that do not involve only the raising of finance. This paper excluded other outstanding issues related to categories in the statement of profit or loss for which the staff conclude no further action is required, including the:

- Classification of foreign currency differences
- Classification of interest and penalties on income taxes
- Disclosure requirements for hybrid contracts designated at fair value through profit or loss with host liabilities that arise from transactions that do not involve only the raising of finance
- Classification of the change in the value of the undesignated forward element of a forward contract or the foreign currency basis spread of a financial instrument
- Classification of loan commitment fees

Staff recommendation

The staff recommended that the IASB require an entity to classify foreign exchange differences on other liabilities as described in paragraph 1(a) of this paper in the operating category of the statement of profit or loss.

The staff further recommended that the IASB amend IAS 29 and IFRIC 7 to require an entity to classify the gain or loss on the net monetary position in the operating category of the statement of profit or loss.

Lastly, the staff recommended that the IASB require an entity to classify in the financing category of the statement of profit or loss all income and expenses arising after initial recognition for hybrid contracts with host liabilities that arise from transactions that do not involve only the raising of financing and are measured at amortised cost in their entirety.

IASB discussion

IASB members did not discuss the amendments to IAS 29 and IFRIC 7.

Some IASB members disagreed with the staff recommendation to require an entity to classify foreign exchange differences on other liabilities in the operating category of the statement of profit or loss because they considered that in countries with high inflation rates, the foreign exchange differences on other liabilities form part of financing activities. This is because entities in countries with high inflation rates would only have access to capital which is denominated in a foreign currency and should therefore form part of the entity's financing activities. This would also be consistent with IAS 23 which states that "exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to interest costs." Furthermore, some IASB members said that entities should consider the nature of foreign exchange differences when determining how to classify this in the statement of profit or loss. Feedback from users showed that there is limited utility for comparable foreign exchange differences. However, other IASB members agreed with the staff recommendation and would prefer to classify all foreign exchange differences in operating activities because they considered this is applicable to most entities.

Some IASB members expressed concerns about requiring an entity to classify in the financing category of the statement of profit or loss all income and expenses arising after initial recognition for hybrid contracts with host liabilities that arise from transactions that do not involve only the raising of financing and are measured at amortised cost in their entirety. This is because the proposal would require preparers to delineate between income and expenses associated with other financial liabilities for the purpose of presentation based on whether it is a hybrid instrument even though a preparer would not be required to do this for the purpose of measurement. Other IASB members were not convinced that this is a prevalent issue.

IASB decision

Only 5 of the 13 IASB members agreed with the staff recommendation to require an entity to classify foreign exchange differences on other liabilities in the operating category of the statement of profit or loss. As such, all IASB members agreed to extend the tentative decision made at its July 2021 meeting to require an entity to classify foreign exchange differences in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to the foreign exchange differences. IASB members agreed that an entity should apply judgement when determining how to allocate between the different categories in the statement of profit or loss without bifurcating the item between the categories.

12 of the 13 IASB members agreed with the staff recommendation to require an entity to classify in the financing category of the statement of profit or loss all income and expenses arising after initial recognition for hybrid contracts with host liabilities that arise from transactions that do not involve only the raising of financing and are measured at amortised cost in their entirety.

IASB members did not discuss the amendments to IAS 29 and IFRIC 7.

Issues related to the proposals for entities with specified main business activities (Agenda Paper 21F)

Background

This paper discussed the issues related to the proposals for entities with specified main business activities in the ED. The issues discussed include the accounting policy choice for the classification of income and expenses arising from cash and cash equivalents for entities that provide financing to customers as a main business activity and feedback for which the staff conclude no further action is required. This includes classification of interest expense on lease liabilities for entities that sublease assets as an intermediate lessor and other feedback on classification of income and expenses on liabilities arising from investment contracts with participation features (in the scope of IFRS 9) or insurance contracts (in the scope of IFRS 17), when neither are issued as part of an entity’s main business activity and obtaining finance from customers as part of a main business activity.

Staff recommendation

The staff recommended that the IASB confirm the accounting policy choice proposed in paragraph 51 of the ED for the classification of income and expenses arising from cash and cash equivalents for entities that provide financing to customers as a main business activity and clarify that the requirement in paragraph 52(a) of the ED for an entity that invests in financial assets as a main business activity would apply regardless of whether the entity has any other specified main business activity.

IASB discussion

One IASB member asked the staff to clarify whether it would be possible for entities that provide financing to customers as a main business activity to calculate their 'net interest income' within the operating category if paragraph 51 of the ED for the classification of income and expenses arising from cash and cash equivalents is withdrawn. The staff confirmed that the entity would be able to calculate their 'net interest income' but it would be incomplete as income and expenses arising from cash and cash equivalents would not be classified elsewhere.

The IASB members agreed that it would be useful to clarify that the requirement in paragraph 52(a) of the ED for an entity that invests in financial assets as a main business activity would apply regardless of whether the entity has any other specified main business activity based on the feedback from outreach. Tthe analysis in Appendix B further supports this recommendation.

IASB decision

All IASB members agreed with the staff recommendation to confirm the accounting policy choice proposed in paragraph 51 of the ED for the classification of income and expenses arising from cash and cash equivalents for entities that provide financing to customers as a main business activity and clarify that the requirement in paragraph 52(a) of the ED for an entity that invests in financial assets as a main business activity would apply regardless of whether the entity has any other specified main business activity.

Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*

In this session, the IASB discussed which items to include in the upcoming Request for Information on the post-implementation review of IFRS 15.

Cover note (Agenda Paper 6)

The IASB is undertaking the post-implementation review (PIR) of IFRS 15. IASB members and staff have been performing outreach with the purpose to assist the IASB in identifying matters to gather further information on in the Request for Information (RFI).

Next steps

The IASB will be asked to approve the publication of, and set a comment period for, the RFI at a future meeting, after IASB members have reviewed a pre-publication.

The staff expect the RFI will be published around the end of June 2023.

This paper was not discussed.

Background (Agenda Paper 6A)

In November 2021, the IASB decided to begin the PIR of IFRS 15 in the second half of 2022. In September 2022, the IASB discussed the plan for Phase 1 of the PIR (identification of matters to be examined).

To meet the objective of the PIR, the staff asked stakeholders questions which would enable the IASB to assess whether:

- There are fundamental questions (i.e., 'fatal flaws') about the clarity and suitability of the core principle and the revenue recognition model in IFRS 15

- The benefits to users of financial statements of the information arising from applying the IFRS 15 requirements are significantly lower than expected (for example, there is significant diversity in application)
- The costs of applying the IFRS 15 requirements and auditing and enforcing their application are significantly greater than expected (or there is a significant market development since the requirements were issued for which it is costly to apply them consistently)

This paper was not discussed.

Analysis of outreach feedback—Standard as a whole and convergence with Topic 606 (Agenda Paper 6B)

This paper analysed feedback from outreach in Phase 1 of the PIR of IFRS 15. The staff summarised feedback on:

- The Standard as a whole, including the costs and benefits related to the implementation and application of the Standard
- Convergence between IFRS 15 and the US Financial Accounting Standard Board's (FASB's) Accounting Standards Codification® Topic 606 *Revenue from Contracts with Customers*

Staff recommendation

The staff recommended that the IASB ask questions in the RFI about:

- Whether the overall objective of IFRS 15 is being met and whether the core principle of the Standard and the supporting five-step revenue recognition model are clear and suitable for making revenue accounting decisions
- Suggestions for specific narrow-scope improvements that could improve the understandability of IFRS 15 without causing substantial cost and disruption to entities already applying the Standard
- Suggestions for lessons learned from the implementation of IFRS 15 that the IASB could consider in improving the understandability and accessibility of its future Standards
- Ongoing costs and benefits of applying the requirements in IFRS 15
- The importance of retaining convergence between IFRS 15 and Topic 606

IASB discussion

During the discussion, IASB members focused mainly on the question to be included in the RFI about the suggestions on specific narrow-scope improvements that could improve the understandability of IFRS 15. The IASB suggested that the wording of such question should not raise the expectation to the users that the IASB is seeking to change IFRS 15.

Moreover, on the convergence between IFRS 15 and Topic 606, IASB members acknowledged that there are already differences between the two standards. IASB members considered that the wording of the question to be included in the RFI should lead the users to comment on why the convergence between IFRS 15 and Topic 606 is useful for them.

IASB decision

When asked to vote on the staff proposal, including some minor modifications on the terminology to be used in the RFI, all 13 IASB members voted in favour of the staff recommendation.

Analysis of outreach feedback—Requirements for the five steps of revenue recognition (Agenda Paper 6C)

This paper analysed feedback from outreach in Phase 1 of the PIR on the requirements for the five steps of the revenue recognition model as required by IFRS 15. The paper provided staff analysis and recommendations on whether to cover the area in the RFI and if so, which matters to ask questions about.

Staff recommendation

The staff recommended that the IASB ask questions in the RFI about:

- Identifying the performance obligations in a contract—fact patterns in which requirements are applied inconsistently, lead to outcomes not reflecting the underlying economic substance or lead to significant ongoing costs
- Determining the transaction price:
    - Diversity in practice in the presentation of consideration payable to a customer, in particular in relation to incentives paid by an agent to the end consumer and incentives that exceed revenue from a contract
    - Diversity in practice in the presentation of sales-based taxes
- Determining the timing of revenue recognition: fact patterns in which the guidance is unclear or may be applied inconsistently, in particular when applying the criteria for over time revenue recognition

IASB discussion

IASB members were concerned about the question related to the diversity in practice in the presentation of sales-based taxes. Differences in jurisdictions could restrict the ability for the IASB to provide additional guidance on this topic. Some IASB members suggested not to add a question in the RFI to avoid situations in which no answers could be provided by the IASB on this topic, while other IASB members asked to maintain the question, albeit being careful on the wording to be included in the RFI.

The IASB members also discussed the inconsistent practices related to the timing of revenue recognition and other minor issues on variable consideration and modifications (e.g. licencing).

IASB decision

The vote on the staff proposal was split in two parts, in order to consider the results on the discussions about the sales-based taxes:

- All 13 IASB members voted in favour of the staff recommendation, excluding the question related to the sales-based taxes
- Only 4 of the 13 IASB members voted in favour of the inclusion of a specific question on sales-based taxes, with the wording to be agreed later

Analysis of outreach feedback—Other areas (Agenda Paper 6D)

This paper analysed feedback from outreach in Phase 1 of the PIR on other areas of IFRS 15, in particular with reference to contract costs, principal versus agent considerations, licensing, disclosure requirements and transition requirements. The paper provided staff analysis and recommendations on whether to cover the area in the request for information (RFI) and if so, which matters to ask questions about.

Staff recommendation

The staff recommended that the IASB ask questions in the RFI about:

- Principal versus agent considerations: fact patterns in which the guidance is unclear or may be applied inconsistently, especially when applying the principle of control and related indicators

- Licensing: fact patterns in which the guidance is unclear or may be applied inconsistently, for example, out-licensing, license renewals or software as a service (SaaS) arrangements
- Disclosure requirements:
    - Requirements, the costs of meeting which exceed the usefulness of the resulting information to users of financial statements
    - Whether the specificity of disclosure requirements is sufficient for enforcement and auditing
- Transition requirements: whether an option to use the modified retrospective method and practical reliefs offered by IFRS 15 achieved an appropriate balance between reducing the cost and burden for preparers of financial statements and providing useful information to users of financial statements

IASB discussion

The discussion was mainly focused on the disclosure requirements. In particular, some IASB members requested more clarity on the wording of the two questions about the disclosure requirements. This is to avoid leaving them too generic and open for comments. The questions on such topic should give the users the opportunity to say which disclosures are beneficial for them and which disclosures caused excessive costs compared to the actual benefits. IASB members stressed the importance of making clear that such questions are not aimed at modifying the disclosure requirements, apart from situations in which the disclosure is clearly not useful.

When asked to vote on the staff proposal, all 13 IASB members voted in favour of the staff recommendation.

Analysis of outreach feedback—Interaction with other IFRS Accounting Standards (Agenda Paper 6E)

This paper analysed feedback from outreach in Phase 1 of the PIR on the interaction between IFRS 15 and other IFRS Accounting Standards, in particular IFRS 3, IFRS 9, IFRS 10, IFRS 11, IFRS 16 and IFRIC 12. In Phase 1 outreach the staff received a lot of feedback on the interaction between IFRS 15 and other IFRS Accounting Standards. Stakeholders reported challenges, diversity in practice and potentially inappropriate accounting outcomes stemming from the interaction between IFRS 15 and other Standards. The paper provided staff analysis and recommendations on whether to cover the area in the request for information (RFI) and if so, which matters to ask questions about.

Staff recommendation

The staff recommended that the IASB ask a question in the RFI about the interaction between IFRS 15 and other IFRS Accounting Standards focusing on:

- IFRS 9:
    - Differentiating between a price concession and impairment losses
    - Circumstances in which entities are unclear about accounting for liabilities arising from IFRS 15
- IFRS 10: accounting for the sale of assets via corporate wrappers
- IFRS 16: circumstances in which entities are unclear about applying the requirements in IFRS 15 together with IFRS 16

IASB discussion

Some IASB members were concerned about the question on IFRS 10, also considering that such analysis was already discussed during the PIR of IFRS 10-12 and no changes are expected from the PIR of IFRS 15.

IASB members discussed a question to be proposed about the interaction between IFRS 3 and IFRS 15. The question would be about the fair value of contract assets and contract liabilities on the acquisition date, also considering that the FASB provided guidance on that during 2021.

IASB decision

The vote on the staff proposal was split in two parts, in order to consider the results on the discussions about the interactions between IFRS 15 and IFRS 10, and between IFRS 3 and IFRS 15:

- 12 of the 13 IASB members voted in favour of the staff recommendation, excluding the staff recommendation on the question about the interaction between IFRS 15 and IFRS 10: accounting for the sale of assets via corporate wrappers
- 9 of the 13 IASB members voted in favour of adding a question on the interaction between IFRS 3 and IFRS 15, based on the decision that the FASB has taken in 2021

Review of academic literature (Agenda Paper 6F)

This paper provided an overview of the academic literature relevant to the post-implementation review (PIR) of IFRS 15. IASB members were asked whether they have any questions or comments on the academic literature summarised in this paper.

IASB discussion

IASB members generally agreed with the review of the academic literature relevant to the PIR of IFRS 15 provided by the staff.

Business Combinations—Disclosures, Goodwill and Impairment

In this session, the IASB tentatively decided on some of its preliminary views regarding reducing the cost and complexity of the impairment test and some aspects of the proposed package of disclosure requirement in IFRS 3.

Cover paper (Agenda Paper 18)

In March 2020, the IASB published DP/2020/1 *Business Combinations—Disclosures, Goodwill and Impairment*. The comment period for the DP ended on 31 December 2020.

In 2021, the IASB discussed the feedback received in response to the DP and decided to prioritise, amongst other things, performing further work to make decisions on the package of disclosure requirements about business combinations and to then redeliberate its preliminary view that it should retain the impairment-only model to account for goodwill.

In December 2022, the IASB agreed to move the project from the research programme to the standard-setting work plan.

The purpose of this meeting was to ask the IASB to make decisions about some of its preliminary views regarding reducing the cost and complexity of the impairment test, and some aspects of the proposed package of disclosure requirements in IFRS 3.

Estimating value in use (Agenda Paper 18A)

In the DP, the IASB held the preliminary view that the cost and complexity of the requirements in estimating value in use (VIU) could be reduced by, in particular:

- Removing the restriction on including cash flows from future restructurings, improvements, or enhancements
- Allowing the use of post-tax cash flows and discount rates

In both cases, many respondents agreed with these preliminary views.

The staff recommended that the IASB maintain its preliminary views, and propose that:

- The restriction in IAS 36 on including cash flows arising from a future restructuring to which an entity is not yet committed, or from improving or enhancing an asset's performance, should be removed
- The requirement to assess assets or cash-generating units (CGUs) in their current condition is retained
- No additional safeguards for those cash flows beyond those that already exist in IAS 36 are included

The staff also proposed that:

- The explicit requirement to use pre-tax cash flows and pre-tax discount rates in estimating VIU is removed
- The use of internally consistent assumptions for cash flows and discount rates regardless of whether VIU is estimated on a pre-tax or post-tax basis is required
- The requirement to disclose the discount rates used is retained, but the requirement that the discount rate disclosed should be a pre-tax rate is removed

The IASB were asked to vote on both these proposals.

IASB discussion

When discussing the first staff recommendation to lift the restriction on including cash flows arising from a future restructuring to which an entity is not yet committed, or from improving or enhancing an asset's performance, IASB members were generally in favour. Some IASB members believed adjusting approved cash flow forecasts to meet this requirement resulted in artificial forecasts that do not represent management's best estimate of the performance of the CGU. Others observed that there are sufficient safeguards elsewhere in the requirements.

However, some IASB members expressed concerns that this amendment may fail to address feedback that impairments are often recognised too late, which disagrees with the concept of testing assets in their present condition.

Some IASB members supported this recommendation on the basis that it would give rise to further feedback when released in the exposure draft.

When asked to vote on the first recommendation, the 11 of the 13 IASB members voted in favour of the staff recommendation.

There was limited discussion regarding the second recommendation to permit the use of post-tax discount rates, as IASB members generally agreed with the staff recommendation. It was suggested that a requirement to disclose whether the discount rate used is pre- or post-tax is added.

When asked to vote on the second recommendation, the IASB voted unanimously in favour.

Other suggestions to reduce cost and complexity (Agenda Paper 18B)

In the DP, the IASB set out its preliminary views on some other suggestions to reduce the cost and complexity of the impairment test, namely:

- Deciding not to clarify the difference between entity-specific inputs in VIU and market-participant inputs in fair value less costs of disposal (FVLCD)

- Deciding not to require a single method for measuring the recoverable amount instead of it being the higher of VIU and FVLCD

Many respondents gave feedback agreeing with these preliminary views. Therefore, the staff recommended that the IASB retain these preliminary views.

Further suggestions were raised by a few respondents, such as developing different requirement for entities in the financial services sector, clarifying whether FVLCD of a listed CGU should reflect a control premium, and allowing VIU to be estimated in a currency different to the one in which the cash flows are generated. The staff recommended that that IASB do not pursue providing additional guidance in these areas.

IASB discussion

There was limited discussion regarding the staff recommendations. When asked to vote, the IASB voted unanimously in favour of both recommendations.

Deleting disclosure requirements (Agenda Paper 18C)

In this paper, the staff recommended the removal of certain existing disclosure requirements in IFRS 3.

In the DP, the IASB stated that it would investigate whether any disclosure requirements in IFRS 3 could be removed without depriving investors of material information.

The staff reviewed stakeholder suggestions from comment letter respondents and a joint meeting of the Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF). From this, a number of existing disclosure requirements were identified that may be removed.

These were:

- Paragraph B64(h)—information about acquired receivables
- Paragraph B64(k)—the amount of goodwill expected to be deductible for tax purposes
- Paragraph B64(m)—acquisition-related costs (paragraphs 30–35)
- Paragraph B66—business combinations completed after the end of the reporting period
- Paragraph B67(d)(iii)—a line item in the required reconciliation between opening and closing goodwill balances that relates to changes resulting from the subsequent recognition of deferred tax assets
- Paragraph B67(e)—the amount and an explanation of any material gain or loss recognised in the current reporting period that relates to the identifiable assets acquired or liabilities assumed in a business combination that was effected in the current or previous reporting period

The staff identified, on the basis of respondent's feedback and their analysis, that:

- Paragraph B64(h) could be removed, as doing so would reduce costs without depriving users of useful information
- Paragraph B64(k) should not be removed because users said the information is useful, and similar information would not always be /disclosed by applying other IFRS Accounting Standards
- Paragraph B64(m) should not be removed, as it could provide useful information to users
- Paragraph B66 should not be removed, as it results in users receiving useful information
- Paragraph B67(d)(iii) could be removed, as it has become redundant since IFRS 3 was amended in 2008
- Paragraph B67(e) could be removed, as the information would be provided applying other IFRS Accounting Standards

The staff therefore recommended that the IASB delete from IFRS 3 Paragraph B64(h), Paragraph B67(d)(iii), and Paragraph B67(e).

IASB discussion

IASB members generally agreed with the staff recommendation to remove the suggested disclosure requirements.

When asked to vote on this recommendation, 12 of the 13 IASB members voted in favour.

IASB members also requested to formally vote on the recommendation in the agenda paper that was not tabled as a question to the IASB, i.e. the recommendation not to make amendments to IAS 34 related to business combinations.

When asked to vote on this recommendation, the IASB voted unanimously in favour.