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Introduction

1. The Global Preparers Forum (GPF) held a meeting in London on 8 March 2017.

2. In this meeting, GPF members discussed the following topics:

   (a) IASB Update (paragraphs 3–4);

   (b) Implementation activities and maintenance projects (paragraphs 5–18);

   (c) Impairment of goodwill (paragraphs 19–25);

   (d) IFRS Taxonomy, common practice and supporting materials (paragraphs 26–31);

   (e) Business Combinations under Common Control (paragraphs 32–35).

IASB Update (Agenda Paper 1)

3. The IASB staff provided an overview of the work of the International Accounting Standards Board (the Board) since the last meeting of the GPF.

4. There was a discussion on the following:

   (a) the importance of Post Implementation Reviews (PIR). The staff noted that the Board is developing a Request for Information as part of the PIR of IFRS 13 *Fair Value Measurement*. This will seek information on various topics, including topics raised by GPF members in this discussion;

   (b) whether the Board plans to update the Practice Statement *Management Commentary*. The staff noted that the Board would discuss this topic at its meeting in March 2017;

   (c) the research project on Goodwill and Impairment. The staff noted that the project's scope is focussed on:

Information about the Global Preparers Forum (GPF) is available at http://www.ifrs.org/The-organisation/Advisory-bodies/Pages/Global-preparers-forum.aspx

(i) whether changes should be made to the existing impairment test for goodwill and other non-current, non-financial assets;

(ii) subsequent accounting for goodwill (including the relative merits of an impairment-only approach and an amortisation and impairment approach); and

(iii) the extent to which other intangible assets should be separated from goodwill.

Implementation activities and maintenance projects (Agenda Paper 2)

5. The staff provided an update on ongoing implementation and maintenance activities being undertaken by the Board. Topics covered included:

    (a) implementation support on IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*;

    (b) recent agenda decisions published by the IFRS Interpretations Committee (the Committee), which include educative guidance on how to apply the relevant principles and requirements; and

    (c) symmetric prepayment options (proposed amendments to IFRS 9).

6. At its March 2017 meeting the Committee will discuss whether a subsidiary can apply the exemption in paragraph D16(a) of IFRS 1 *First-time Adoption of International Financial Reporting Standards* to its foreign currency translation reserve (FCTR). GPF members were asked whether they have seen this situation in practice and, if so, the accounting treatment applied.

7. GPF members indicated that they did not consider the situation to be common. Some members said standard setting is not needed in this respect. Members noted that the application of paragraph D13 of IFRS 1 is available to a subsidiary on its date of transition to IFRSs, irrespective of the decisions made by the parent. One member thought that, in such a situation, a subsidiary should be able to use the same amount of FCTR in its financial statements that is used in its parent's consolidated financial statements.

8. The GPF discussed and provided feedback on three issues in breakout groups. These issues were:

(a) Issue 1: income tax consequences of payments on financial instruments classified as equity;

(b) Issue 2: long-term interest in associates and joint ventures; and

(c) Issue 3: interest and penalties related to income taxes.

Issue 1—Income tax consequences of payments on financial instruments classified as equity

9. GPF members were asked if they agree with the proposed amendments to IAS 12 in the Exposure Draft *Annual Improvements to IFRS Standards® 2015-2017 Cycle*. The proposed amendments clarify that an entity should account for all income tax consequences of dividends in the same way, regardless of how the tax arises. Many GPF members agreed with the proposed amendments. Some members suggested that the Board should consider any possible consequences on an entity's effective tax rate and on earnings per share before finalising the amendments. Some also said it might be difficult to assess whether a payment is a distribution of profit.

Issue 2—Long-term interest in associates and joint ventures

10. GPF members were also asked if they agree with the proposed amendments to IAS 28 in the Exposure Draft *Annual Improvements to IFRS Standards® 2015-2017 Cycle*. The Board proposes to clarify that an entity is required to apply IFRS 9 *Financial Instruments*, including its impairment requirements, to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied. In the Basis of Conclusions in the Exposure Draft the Board explained that the amendments would clarify the existing requirements; they do not revisit those requirements.

11. GPF members generally agreed with the proposed amendments and with the Board's decision not to revisit the accounting for long-term interests at this stage. Some members said:

(a) the application of the proposed amendments could result in inappropriate outcomes in some situations;

(b) the Board should consider how an entity accounts for long-term interests in its separate financial statements; and

(c) in substance, the nature of long-term interests is similar to equity investments in an associate. Accordingly, an entity should apply IAS 28 to account for long-term interests.

Issue 3—Interest and penalties related to income taxes

12. GPF members were asked about their experience of interest and penalties related to income taxes (interest and penalties). Specifically, GPF members were asked whether interest and penalties are material, how they account for interest and penalties and the implications of those accounting treatments.

13. GPF members said that interest and penalties can, in some cases, be material, and may become more significant as tax authorities become more aggressive in collecting taxes. GPF members said that, in some cases, it is difficult to identify interest and penalties separately from income tax amounts, particularly in jurisdictions for which entities negotiate a combined position with a tax authority.

14. Some GPF members said that they account for interest and penalties applying IAS 12 *Income Taxes*, while others apply IAS 37 *Provisions, Contingent Liabilities and Contingent Asset*s. GPF members said that, in their view, the most significant implication of applying IAS 12 to interest and penalties rather than IAS 37 relates to where an entity presents these amounts in the statement of profit or loss. One member noted that, rather than account for interest and penalties together, the entity accounts for penalties together with income taxes by applying IAS 12; it accounts for interest separately, applying IAS 37.

15. Most members said interest and penalties are not based on taxable profits and therefore, in their view, such items are in the scope of IAS 37. These members acknowledge an entity has to apply judgement to determine an appropriate allocation of interest and penalties when it negotiates a single amount with a tax authority. These members said that prescriptive requirements in this respect are not needed. They also thought the Board should not undertake a project on interest and penalties. However, one GPF member said that it could be useful if the Board were to include requirements in IFRS Standards to state that an entity uses judgement to determine an appropriate allocation between

interest and penalties and income taxes. Another member thought that an entity's accounting for interest receivable might depend on the circumstances that gave rise to the interest receivable.

16. Some members thought interest and penalties should be in the scope of IAS 12. This is because interest and penalties are closely related to income taxes. However, other members said applying IAS 12 could lead to the need for additional disclosures to explain the effective tax rate.

Next Steps

17. Issues 1 and 2 are the subject of proposals in the Exposure Draft *Annual Improvements to IFRS Standards® 2015-2017 Cycle*. The comment deadline is 12 April 2017.

18. The Committee will discuss Issue 3 at its March 2017 meeting.

Impairment of goodwill (Agenda Paper 3)

19. The staff sought feedback from GPF members on the following ideas the staff are exploring for possible simplifications to the goodwill impairment testing requirements in IAS 36 *Impairment of Assets*:

    (a) one-model approach to determining recoverable amount of an asset instead of the current two-model approach (higher of value in use and fair value less costs of disposal);

    (b) relief from annual testing by not requiring an entity to test goodwill for impairment when there is no indication that goodwill may be impaired (indicator approach);

    (c) improving value in use methodology by allowing the use of post-tax discount rate and relaxing some restrictions on the cash flows to be included; or

    (d) providing additional guidance on allocating goodwill arising in a business combination to a pre-combination cash generating unit (CGU).

20. Several GPF members favoured an indicator approach to provide relief from annual testing and relaxing the restrictions on cash flows to be included in computing value in use. In relation to the indicator approach, one GPF member asked the staff to consider

whether missing the budgeted targets should be an indicator that triggers impairment testing.

21. In relation to the one-model approach, a few GPF members indicated a preference for a model that uses value in use because they think that:

    (a) in practice, entities end up using value in use because there is usually no observable price for a CGU, and when an observable price is available, that price is not a better reflection of the value of the CGU, for example if the price is observed only for a small block of shares and does not reflect a control premium; and

    (b) value in use better reflects the fact that an entity holds, for example, property, plant and equipment for use in the production or supply of goods or services;

22. Individual GPF members had other suggestions for clarifications or changes that the Board could make to IAS 36, including:

    (a) that the discount rate used should be consistent with the level of cash flow projections;

    (b) allowing an entity to use its own weighted average cost of capital instead of that of a peer group;

    (c) removing the requirement to disclose a sensitivity analysis because those disclosures make it easy to derive an entity's budgets.

23. One GPF member said that the objective of the research project should not be to simplify the impairment testing, but to make the testing more robust.

24. The staff did not ask GPF members for their views on subsequent accounting for goodwill, but a few GPF members said that the Board should consider alternative approaches, such as amortisation or direct write-off of goodwill, because they think that:

    (a) the high level of subjectivity in the value in use methodology:

        (i) makes it difficult to obtain accurate inputs, for example, because of difficulty in segregating cash flows attributed to regular maintenance of an asset and cash flows attributed to improving or enhancing an asset's performance; and

        (ii) causes unproductive debates with auditors;

(b) the measurement of recoverable amount is often highly sensitive to unverifiable assumptions about the terminal growth rate;

(c) the impairment testing methodology could be ‘gamed’ by manipulating the recoverable amount, and consequently the timing of recognition of impairment loss;

(d) because internally generated goodwill gradually replaces purchased goodwill, at some point the carrying amount of goodwill will no longer represent only synergies that arose from the past business combination that gave rise to the recognition of the purchased goodwill; and

(e) amortisation of goodwill would better reflect the economics in some situations, for example, if the acquired business has a finite life.

Next Steps

25. The staff will consider the comments from the GPF members in their research and present them to the Board at a future meeting.

IFRS Taxonomy, common practice and supporting materials (Agenda Paper 4)

26. The staff introduced the IFRS Taxonomy explaining how the taxonomy fits with the Board’s Better Communication theme. The staff stated that in their view, tagging of IFRS financial statements can improve accessibility of information and has the potential to reduce the overall data information costs. This is particularly true for those users of IFRS financial statements who currently have to rely on third-party supplied electronic data. In addition, by using the IFRS Taxonomy, preparers can take back some control of the data from third party data vendors.

27. Individual GPF members expressed the following views on the IFRS Taxonomy overall:

(a) One GPF member disagreed with the opinion that the IFRS Taxonomy will give preparers more control of the data, arguing that data aggregators (and users) are likely to continue to standardise the tagged data supplied by preparers. The staff acknowledged this but added that users would also have a choice to use the electronic data as reported and tagged by the preparers. This choice does not currently exist.

(b) One member of the GPF agreed with the above view expressed by the staff. This member also emphasized that preparers do not need to understand the XBRL and taxonomy technical language as intermediaries and software tools will help. However, they need to take responsibility for the accurate tagging of their data and as such need to have an understanding of the IFRS Taxonomy content.

(c) Another member of the GPF remarked that structured electronic reporting does not reduce costs, rather it shifts costs from users to preparers. This member also stated that it is her experience that the market may put pressure on preparers not to use custom tags ('extensions'). Consequently, there is a risk that tagging may result in more standardised IFRS financial reporting.

28. GPF members had the following general suggestions on areas for future common practice reviews:

(a) Consider whether the use of text block tags is more appropriate for reporting areas where tagging of individual elements is likely not to be that relevant for users and/or users are likely to review this information mainly within the context of the report; and

(b) Work closely with industry groups, other taxonomy standard setters and organisations that review accounting trends, such as for example the American Institute of CPAs.

29. One GPF member suggested reducing the number of common practice elements. This member expressed a concern that structured electronic reports may encourage investors to compare information that has been defined differently across entities and countries. The staff responded to this concern stating that this risk applies regardless of the format used to deliver the data.

30. GPF members did not have any views on additional taxonomy guidance or supporting materials.

31. One member remarked that the GPF does not seem to be the right audience to ask detailed taxonomy related questions. A member of the Board asked GPF members to encourage the relevant people within their organisations to comment on the consultative documents related to the IFRS Taxonomy. This includes for example commenting on *Proposed IFRS Taxonomy Updates Common Practice (agriculture, leisure, franchises,*

retail and financial institutions) published 15 December 2016 with the comment deadline 15 February 2017.

Business Combinations under Common Control (BCUCC) (Agenda Paper 5)

32. The purpose of this session was to seek initial reactions of GPF members on the staff's preliminary views on reporting BCUCC.

33. The staff:

    (a) provided an overview of the results of the research and outreach activities performed on BCUCC since the Board made a tentative decision on the scope of the research project;

    (b) discussed the staff's preliminary views on reporting BCUCC; and

    (c) set out the next steps of the BCUCC project.

34. Only a few GPF members provided questions or comments on the topic. Some supported the staff preliminary view, in particular Approach 1 ie to apply the predecessor method to all business combinations under common control and group restructurings. Others suggested that:

    (a) it is possible to distinguish BCUCC with different economic characteristics; however, no specific suggestions were made;

    (b) the Board should clarify the description of BCUCC, in particular the description of common control; and

    (c) if the predecessor method is used to account for BCUCC, a requirement to disclose fair value information would create an extra burden on preparers.

Next steps

35. Further work on the project is expected to recommence in Q2 of 2017. Feedback received from the GPF will be shared with the Board in future deliberations.

Next meeting

36. The next meeting will be a joint GPF and Capital Markets Advisory Committee (CMAC) meeting and it will be held on 15 and 16 June 2017.