Minutes from GPF meeting
March 2015

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Introduction

1. The Global Preparers Forum (GPF) held a meeting in London on 5 March 2015. Martin Edelmann welcomed all GPF members, including two new members: Frank Palmer and Jiro Tsunehara.

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

   (a) IASB Update (paragraphs 3-10);

   (b) IFRS Interpretations Committee Update (paragraphs 11-17);

   (c) Agenda Consultation 2015 (paragraphs 18-22);

   (d) Business Combinations under Common Control (paragraphs 23-25)

   (e) Income Tax Accounting: The Need for Change? (paragraphs 26-28);

   (f) Review of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (paragraphs 29-31);

   (g) Discount Rates (paragraphs 32-38);

   (h) Share-based Payment (paragraphs 39-41);

   (i) Performance Reporting (paragraphs 42-47).

IASB Update (Agenda Paper 1)

3. The Technical Director highlighted the main features of the Technical Update report, which had been provided to GPF members for the first time.

4. GPF members challenged the extent to which the IASB and FASB (the Boards) really are converged in respect of the Leases project. The Technical Director explained that the two Boards have reached agreement on many aspects of this project and, in particular, on the requirement for lessees to recognise assets and liabilities on the balance sheet. The Technical Director also acknowledged that the Boards have reached different conclusions on the recognition and presentation

of lease expenses in the income statement, noting that these conclusions had been extensively debated at meetings of the IASB's advisory bodies. A number of GPF members suggested that it is unhelpful to keep referring to convergence when this has not in fact been achieved. Another GPF member said that the Boards should work harder to achieve full convergence.

5. The discussion moved on to IFRS 15, *Revenue from Contacts with Customers*. One GPF member commented that it is unhelpful to refer to convergence in respect of this Standard if the words in IFRS are going to be different from US GAAP and, as a result, outcomes may also be different. The Technical Director explained that, while the different wordings could imply different outcomes in certain circumstances, it is the Boards' intention that there will generally be converged outcomes.

6. One GPF member expressed concern about the principle-based nature of the wording in the proposed amendments to IAS 7 *Statement of Cash Flows*, noting that such words are much more difficult to audit. The Technical Directors emphasised that the IASB wants to get away from more prescriptive wordings. One GPF member emphasised the need to exercise judgement in ensuring that disclosures are relevant.

7. One GPF member raised the question of disclosure burdens for mid-cap companies and asked whether the Board had considered allowing such companies to use the *IFRS for SMEs*. The Technical Director noted that the IASB had already considered and rejected this approach, both in the original *IFRS for SMEs* and in the subsequent review. The GPF member also questioned the requirement to apply full IFRS to individual entity ('statutory') accounts, noting that this is very costly and does not provide tangible benefits (especially since there are few users of such financial statements). The suggestion was that such entities should be allowed to use the *IFRS for SMEs* for those accounts, or to disclose only the information required by the *IFRS for SMEs*.

8. One GPF member expressed concern at the volume of narrow-scope amendments. An IASB member suggested that this issue is likely to be considered as part of the Agenda Consultation.

9. One GPF member asked about the status of the IFRS Taxonomy at the SEC. The Technical Director commented that there have been some positive discussions at the SEC, but it not clear when the SEC might approve use of the IFRS Taxonomy for foreign filers.

10. Finally, another GPF member asked about the IASB's views on the so-called 'P × Q' issue[1]. It was explained that the topic will be debated in the March 2015 Board meeting.

IFRS Interpretations Committee Update (Agenda Paper 2)

11. The purpose of this session was to gain input on three topics:

    (a) IAS 2 *Inventories* / IAS 38 *Intangible Assets*: Should interest be accreted on prepayments for long-term supply contracts?

    (b) IAS 16 *Property, Plant and Equipment*: Accounting for proceeds and costs of testing of PPE; and

    (c) IAS 12 *Income Taxes*: Reflecting uncertainty in the recognition and measurement of income taxes.

IAS 2 Inventories / IAS 38 Intangible Assets: Should interest be accreted on prepayments for long-term supply contracts?

12. At its November 2014 meeting the IFRS Interpretations Committee asked the staff to obtain further information about long-term supply contracts in which a customer pays a significant prepayment that is set against future deliveries of raw materials. These prepayments could either be in the nature of a financing arrangement, in which case interest should be accreted on the prepayment, or be made for non-financing reasons, in which case interest would not be accreted.

13. A few GPF members commented on this type of transaction:

[1] This issue concerns whether the fair value measurement of quoted investments in subsidiaries, joint ventures and associates should be the quoted price (P) multiplied by the quantity of financial instruments held (Q), or P × Q without adjustments, or whether other valuation techniques would be more appropriate.

(a) One GPF member thought that such transactions are less common now and that generally these prepayments were not made as part of a financing arrangement.

(b) Another GPF member also thought they were less usual nowadays, particularly because more attention is now paid to controlling working capital. Some transactions had included a financing component; others had not.

(c) A third GPF member thought these types of transactions did currently happen and, when they did, were frequently for large amounts. Some were financing arrangements agreed with the entity's customer; others, in effect, provided collateral to protect against customer credit risk.

IAS 16 Property, Plant and Equipment: Accounting for proceeds and costs of testing of PPE

14. During the construction phase of an item of property, plant and equipment (PPE), an entity may test the operation of the PPE before concluding that the PPE is capable of operating in the manner intended by management. Paragraph 17 (e) of IAS 16 states that testing is to determine whether the asset is functioning properly. It also states that the cost of testing is part of the cost of the asset and that proceeds from selling items produced during testing should be deducted from the cost of testing. The Interpretations Committee has been discussing the accounting requirements when the proceeds from the sale of items produced during testing exceed the cost of testing. The IASB staff asked for GPF members' experiences of this issue.

15. Some GPF members commented as follows:

(a) One GPF member observed that the guidance in paragraph 17(e) of IAS 16 could be the cause of diversity in practice and held the view that paragraph 17(e) should be simplified to be similar to US GAAP, so that no proceeds should be deducted from the cost of the PPE.

(b) Another GPF member noted that in the extractive industries there is diversity in interpreting 'functioning properly' in accordance with paragraph 17(e) of IAS 16. Some companies make the assessment solely from a technical and engineering perspective, while others also consider financial aspects such as the level of net proceeds. IAS 16 implies that the assessment should be made only from the technical and engineering perspective. That GPF member also observed that the assessment is affected by how an entity componentises the PPE.

(c) Another GPF member stated that it may take a couple of years until the PPE functions as intended by management. In that GPF member's experience only the proceeds from the sale of output produced by the first test runs would be deducted from the cost of the asset; the proceeds received from saleable outputs are, however, usually recognised in the income statement.

IAS 12 Income Taxes*: Reflecting uncertainty in the recognition and measurement of income taxes*

16. The Interpretations Committee has tentatively decided to develop a draft Interpretation on accounting for uncertainties in income taxes. The IASB staff introduced the issue and explained the Interpretations Committee's tentative decisions made to date. The IASB staff asked for GPF members' comments on these tentative decisions.

17. Some GPF members provided their comments:

(a) One GPF member thought that full retrospective application could be difficult, because this could involve hindsight in making the assessment of changes brought about by introducing this Interpretation.

(b) Another GPF member stated that the expected value is more difficult to estimate than the most likely amount, because the expected value would require an entity to estimate the probability for each outcome.

(c) A few GPF members were concerned that the scope currently proposed is broader than the question in the original submission (ie a question on recognition of current income tax in a specific situation).

(d) Another GPF member generally agreed with the Interpretations Committee's tentative decisions. However, this member did not want the disclosure requirements to increase because of this draft

Interpretation. In addition, this member thought that the disclosure requirement in US GAAP on this topic caused burdens for entities.

(e) Another GPF member preferred a ‘principle-based’ approach for this issue, rather than detailed requirements, such as those found in US GAAP.

Agenda Consultation 2015 (Agenda Paper 3)

18. The IASB staff sought the views of GPF members on the IASB agenda in the light of the next Agenda Consultation, which is due to begin in 2015 with a Request for Information.

19. GPF members commented on the strategic direction of the IASB Agenda.

(a) Many GPF members suggested that the IASB should now spend more time on maintaining existing Standards.

(i) One GPF member noted that the major projects from the convergence programme (*Leases* and *Insurance Contracts)* need to be completed, and there should then be a period of calm.

(ii) Some believe that the IASB’s resources need to be invested in assessing the diversity of implementation issues across the world. An IASB member asked how much time the IASB should spend on consistent application. One GPF member felt that the answer depends on the industry. Another GPF member queried whether the IASB really has the resources to address this matter. Finally, one GPF member reflected on the difficulties that would arise in trying to engage a wider reader audience if excessively precise technical language were to be used in IFRS.

(iii) An IASB member suggested that, in terms of the strategic direction, the notion of a stable platform seems to be important.

(iv) One GPF member expressed concerns about the number of interpretation questions that are rejected by the Interpretation Committee, for example in the areas of Equity Accounting and Related Party Transactions. This GPF member suggested that the IASB should step back from the detail and consider whether those questions suggest that there are problems in the Standards underlying those questions.

(b) Another GPF member reflected that, in retrospect, there has been too much focus on the Financial Services industry and on convergence with US GAAP.

20. GPF members commented on projects that should be prioritised:

(a) One GPF member suggested that the overall strategy of the IFRS Foundation should inform the Agenda Consultation. This GPF member suggested that one element of this strategy might be a focus on fewer projects, but executed at greater speed. In any event, there needs to be a mechanism for helping to prioritise projects.

(b) Another GPF Member noted that it has been frustrating that important topics such as Deferred Tax, Inflation Accounting and certain Foreign Exchange issues have not been prioritised.

(c) One GPF member suggested that 'Amortisation of Goodwill' should be introduced as a project. This GPF member further suggested that there should be a clear mechanism for withdrawing projects. One IASB member commented that the 'life cycle review' goes some way to addressing the idea of a 'sunset' mechanism.

(d) One GPF member asked why *Performance Reporting* is being revived as a project. It was noted that some users view this as a priority project.[2]

(e) One GPF member also reflected that financial reporting is seen as a compliance function and that it is losing its ability to communicate. These broader corporate reporting issues need to be reflected in the Agenda Consultation.

21. Additional issues:

(a) One GPF member commented that retrospective application of narrow-scope amendments is a major problem.

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[2] The Performance Reporting project was also discussed at the March 2015 GPF meeting.

(b) GPF members then reflected on the wide array of reporting initiatives to which preparers have to respond—these include country-by-country reporting, non-IFRS measures and requests from tax authorities and non-governmental organisations. The IASB needs to have a view on these reporting issues.

22. Convergence:

(a) An IASB member asked whether there are any differences between IFRS and US GAAP that the IASB should try to address; for example loss contingencies, because of the lower probability threshold in IFRS. That IASB member noted that it might not be necessary to work with the FASB to address such issues.

(b) Two GPF members commented that convergence should not be raised as a topic in the Agenda Consultation – these members felt that convergence has been tried but has failed. In addition, these members felt that it would be better to focus on higher level strategic issues, such as the direction of financial reporting.

Business Combinations under Common Control (Agenda Paper 4)

23. The IASB staff provided an update on the research project on Business Combinations under Common Control (BCUCC). The IASB staff then discussed two types of BCUCC that affect third-party equity investors and indicated the staff's preliminary view, which is that the predecessor method should be used to account for such BCUCC in the consolidated financial statements of the acquirer.

24. Some GPF members supported the staff's preliminary view that the predecessor method should be used for both types of transactions discussed in this session. However, some other GPF members:

(a) supported using that method for BCUCC between wholly owned subsidiaries undertaken in preparation for an initial public offering; but

(b) expressed concerns about using it when there are some non-controlling shareholders (NCI) in the accounting acquirer. In particular, one GPF member expressed a concern that the predecessor method would not reflect the values exchanged in the transaction and could understate equity, which in turn would result in inflated indicators for return of equity in subsequent years. That GPF member stated that information needs of NCI in a BCUCC are the same as in a business combination with a third party.

25. A few GPF members commented on the scope of the project:

    (a) Some members suggested that the project should consider accounting in the separate financial statements of the acquirer.

    (b) One member suggested that the project should consider other transactions between entities under common control, such as the acquisition of a group of assets that does not meet the definition of a business, and the interaction with the broader issue of measuring related party transactions.

Income Tax Accounting: The Need for Change? (Agenda Paper 5)

26. The purpose of this session was: to understand how, and to what extent, income tax information is used by internal management; to identify the existing practical problems about the current accounting for income taxes; and to get a sense of a direction for improving the accounting standard for income tax.

27. GPF members discussed how they use tax information internally and the possibility of providing tax information by segment or by geographical region.

    (a) Many GPF members assessed corporate performance on a pre-tax basis, but other GPF members allocate tax effects to segments.

    (b) One GPF member looked at cash tax information to assess the tax impact on capital inflow and working capital.

    (c) Some GPF members considered that the tax reconciliation required by IAS 12 provides no useful information for a worldwide taxpayer, while other GPF members argued that it is in fact meaningful, because the reconciliation provides insight into the main drivers of a lower effective tax rate; for example, an application of a special tax scheme permitted under tax law of a specific jurisdiction.

(d) Many GPF members pointed out that it will be very difficult, complicated and probably not useful, to provide segmental tax information, because tax planning is managed globally at corporate level across segments.

28. GPF members also discussed the major practical problems they encountered when preparing financial statements.

(a) Some GPF members thought deferred tax information was of little use. Some felt strongly that there was an urgent need to make a narrow-scope amendment to the existing Standard to address the issue of deferred tax effects arising on the intercompany transfer of inventory.

(b) Some GPF members considered that the disclosure on tax consequences of possible future dividends from a subsidiary/associate was meaningless, because it would be affected by various economic factors that are outside the control of an entity.

(c) One GPF member suggested introducing the US GAAP two-step approach for recognising a deferred tax asset for unused tax losses (ie recognising simultaneously the gross amount of deferred tax assets and a valuation allowance).

Review of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (Agenda Paper 6)

29. The staff of the Italian accounting standard-setter (OIC) is assisting the IASB with the review of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* under the IASB's Disclosure Initiative, to identify possible improvements. The OIC staff had launched separate surveys for preparers and investors in December 2014.

30. GPF members were provided with results of the preparers' survey and were asked whether those results were consistent with their views. The resulting discussion highlighted the following points:

(a) Most GPF members agreed with respondents that there were some instances in which it could be difficult to distinguish a change in an accounting policy from a change in an accounting estimate. For example, a change in the measurement formula of the cost of the inventories from first-in first-out (FIFO) to weighted average cost.

(b) Most GPF members agreed that in some circumstances the distinction between change in an accounting estimate and an error was not clear. For example, some estimates requiring substantial judgement could, in hindsight, be assessed as an error if subsequent questions arose.

(c) Some GPF members questioned whether it is necessary to replace the current distinction between changes in accounting policies and changes in accounting estimates with the proposed distinction between changes in measurement and other changes. They think it would be more beneficial to clarify the current distinction.

(d) Some GPF members agreed that changes in the measurement basis were changes in accounting policy, while changes in the method used to make an estimate, and changes in the inputs and assumptions used to make an estimate, were changes in accounting estimates.

(e) One GPF member stated that retrospective application cannot be used when judgement (ie hindsight) is required to determine prior years' figures.

31. The OIC staff plan to discuss the results of both the investors' and preparers' surveys at an IASB meeting during the second quarter of 2015. The IASB's deliberations on the content of a Principles of Disclosure Discussion Paper are currently expected to be completed in the second half of 2015.

Discount Rates (Agenda Paper 7)

32. The IASB staff presented the research project on discount rates, with preliminary findings, and asked GPF members about their experience with any inconsistencies in IFRS discount rate requirements.

33. GPF members expressed support for conducting research on discount rates, with some stating this research should be of medium priority.

34. The GPF members commented on rates required in IAS 19 *Employee Benefits*:

(a) Some GPF members stated that investors seem to prefer consistency of application over relevance, and that this seems to explain investors' preference for rates based on more rigid rules, such as those in IAS 19.

(b) Other GPF members noted that IAS 19 rates give a false impression of consistency, because companies often have to use models to extrapolate the market rates to reflect the timing of their pension liabilities, so the rates used are neither applied consistently nor relevant.

(c) Some GPF members stated that use of judgement is always required in present value measurements. The requirements should be consistent so that consistent judgement is applied. IAS 19 is currently not consistent with other IFRS.

35. Some GPF members asked whether using current market rates at the year-end makes sense, because temporary fluctuations can have a major and volatile impact on measurement of a long-term liability. One GPF member commented that their local GAAP uses five-year average rates, but they were told this was not in line with IFRS.

36. Several GPF members expressed a desire for use of other comprehensive income (OCI) to report the effects of changes in discount rates for all assets and liabilities, to achieve consistency and to avoid misleading volatility in profit or loss. They stated that it was inconsistent to use OCI for some changes in discount rates (eg pensions) and not others (eg provisions within the scope of IAS 37 *Provisions, Contingent Assets and Contingent Liabilities*).

37. Some GPF members expressed a desire to exclude own credit from measurement of all liabilities, because they do not believe that including own credit provides relevant information. They noted that own credit is included for some items (eg financial liabilities measured at fair value) but not others (eg pensions and, in practice, provisions).

38. Finally, GPF members generally expressed a preference that any standard-setting action should occur through cross-cutting projects as opposed to piecemeal amendments to different individual Standards at different times.

Share-based Payment (Agenda Paper 8)

39. The IASB staff informed GPF members about the Research Project on IFRS 2 *Share-based Payment*. The objective of the project is to identify the most common areas of complexity in IFRS 2. To achieve this, the project will identify and explore the main application issues that arise in practice. The initial output of the Research Project is expected to be a Research Paper, which will enable respondents to the 2015 Agenda Consultation to consider whether the IASB should do more work on this subject.

40. Agenda Paper 8 presented a list of application issues that arise when entities apply IFRS 2 in practice. The IASB staff asked GPF members whether this list omitted any significant issues. Most GPF members agreed that IFRS 2 was a complex Standard; specific comments by GPF members included:

    (a) Since IFRS 2 was issued in 2004, it has achieved its main objective, ie to recognise an expense for share-based payment arrangements.

    (b) Existence of two measurement models in IFRS 2 causes complexity in application.

    (c) IFRS 2 is too rigid in its existing requirement to recognise the expense over time for arrangements that require continuing employment, because not all of them were 'retention awards' in substance.

    (d) The accounting outcome of the IFRS 2 requirements could be difficult to explain to users. GPF members mentioned two instances:

        (i) In a share-based payment arrangement that is settled in shares and recognised over a period of time, the amount of expense in later periods sometimes appears not to reflect the entity's results (and share prices) during those later periods. This is because the amount of the expense was determined at the grant date of the arrangement, ie in an earlier period.

        (ii) It is difficult to explain why there are no reversals of previously recognised expenses for share-based payment arrangements when the share option's exercise price exceeds the fair value of the shares and, therefore, there will be no exercise and no settlement of the arrangement.

41. When the Chairman asked GPF members to indicate the priority the IASB should assign to work on IFRS 2, most GPF members favoured medium or low priority.

Performance Reporting (Agenda Paper 9)

42. The IASB staff informed GPF members about the Research Project on Performance Reporting. The project was added to the research programme in July 2014, but until now it has not been given a high priority. The plan is to present a paper to the IASB in June 2015 recommending the scope for the project.

43. Although the project is entitled 'Performance Reporting', it is inevitable that the statement of financial position will be considered as part of the project.

44. The staff explained that the project would differ in scope from the Financial Statement Presentation (FSP) project, which was suspended in 2010. Nevertheless it would include some topics from that project, including the cash flow statement and consideration of whether the profit or loss section of the statement of comprehensive income should have some subcategories such as operating income. The staff emphasised that the IASB would learn from the consultations it undertook in the FSP project, and the mistakes it made.

45. It was clear from the comments made by several GPF members that they were concerned that, despite the assurances, the IASB might push for direct cash flow presentation and reintroduce cohesiveness. The GPF members had previously expressed concerns about cohesiveness.

46. The staff indicated that they were exploring a 'through the eyes of management' approach to presentation of performance, because a rigid structure would not work well across different industries. Comments by individual GPF members indicated that it would be preferable to take a less rigid approach than previously proposed in the FSP project. The IASB staff emphasised that the IASB would be developing the project cautiously.

47. An informal vote at the end of the session indicated that three GPF members thought Performance Reporting project should be a high priority, while three thought it should have a medium priority.

Next meeting

48. The next meeting will be a joint GPF and Capital Market Advisory Committee (CMAC) meeting and it will be held on 11 and 12 June 2015.