

Meeting Notes—Joint CMAC GPF Meeting

The Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) held a hybrid meeting on 16–17 June 2022, broadcast from the London offices of the International Accounting Standards Board (IASB).

Members discussed:

- IASB and IFRS Interpretations Committee updates
- Primary Financial Statements (paragraphs 1-34)
 1. *Operating expenses* (paragraphs 1-19)
 2. *Unusual income/expense* (paragraphs 20-33)
- Post-implementation Review of IFRS 9—Classification and Measurement (paragraphs 35–42)
- Goodwill and Impairment (paragraphs 43–66)
- ISSB update and ISSB exposure drafts (paragraphs 67–70)

Primary Financial Statements

Operating expenses

1. This session obtained feedback from CMAC and GPF members to help the IASB's future discussions on analysing operating expenses by nature in the notes to the financial statements.
2. The staff updated CMAC and GPF members on:
 - a. the IASB's redeliberations on the proposal in paragraph 72 of the Exposure Draft *General Presentation and Disclosures*, which requires that an entity that reports expenses by function in the statement of profit or loss discloses an analysis of its total operating expenses by nature in the notes; and
 - b. the staff's current analysis of this issue.
3. The update was followed by breakout sessions to obtain members' views on the expense items listed on the slides prepared for the meeting, specifically:
 - a. whether a requirement for an entity to disclose, for these expense items, the amounts included in each line item in the statement of profit or loss would provide useful information for users and be feasible for preparers; and
 - b. whether there are any other expense items not included in that list that are commonly disclosed by an entity and for which disclosing the amount included in each line item in the statement of profit or loss would be feasible for preparers and provide useful information for users.
4. During the breakout sessions, members' views were also sought on:

- a. whether a possible disclosure requirement should focus on specified expense items or extend to all expense items an entity discloses in the notes to the financial statements;
 - b. whether, for an expense item, the requirement should be to disclose the related line items in the statement of profit or loss or rather disclose the related functions (whether those functions are presented in the statement of profit or loss or disclosed in the notes); and
 - c. whether the required information should be provided in a single location, or in the same location as the related information.
5. IASB members summarised the respective breakout discussions. These summaries are reflected in paragraphs 6–19.

Feasibility and usefulness of disclosing, for expense items, the amounts included in each line item in the statement of profit or loss

6. GPF members all agreed that disclosing the amounts included in each line item in the statement of profit or loss would generally be feasible for:
- a. depreciation, amortisation, and employee benefits—although some said providing expense amounts rather than cost amounts would be challenging for entities using standard costing systems; and
 - b. expense items that are ‘one-offs’ (non-recurring) because the required information could be provided without having to adjust reporting processes or systems (for example, impairment of goodwill, impairment of other intangible assets, inventory write-downs or ‘one-time’ foreign exchange gains or losses).
7. Some GPF members said that it may be challenging for an entity to disclose, for other expense items, the amounts included in each line item in the statement of profit or loss—and that the IASB should carefully consider the costs and benefits of requiring such information (for example, foreign exchange gains or losses, gains or losses on derivatives and hedging instruments).
8. Regarding a principle that would require an entity to provide the required information for all expense items an entity discloses in the notes, some GPF members said that demonstrating to auditors that all expense items to which the disclosure requirement would apply have been identified might be challenging.
9. Many CMAC members said that having information on the respective amounts of an expense item included in each line item in the statement of profit or loss:
- a. helps users better understand the way an entity is managed and the line items in the statement of profit or loss in which a specific expense item is included (for example, better understand the allocation of capital cost); and
 - b. allows for comparisons between entities.

10. Some CMAC members said they would generally like to better understand whether a specific expense item was fixed or variable in nature or whether it was a non-cash or a cash item.
11. Regarding the expense items discussed, CMAC members all agreed that having information on the amounts of depreciation, amortisation, and employee benefits included in each line item in the statement of profit or loss was most important and would generally be useful regardless of the industry in which an entity operates (for example, to better understand an entity's fixed expenses).
12. Some CMAC members mentioned other expense items that would provide useful information if an entity were required to disclose, for these expense items, the amounts included in each line item in the statement of profit or loss:
 - a. impairments;
 - b. foreign exchange gains or losses;
 - c. gains or losses on derivatives and hedging instruments;
 - d. provision charges;
 - e. restructuring expenses;
 - f. research and development expenses (when such information is not presented separately in the statement of profit or loss);
 - g. gains or losses related to business combinations; and
 - h. legal expenses and royalty payments.

However, some CMAC members acknowledged that the benefits of having such information would often depend on the entity or industry in which an entity operates.

13. Some CMAC members said they would also be interested in having more information on expense items that result from a shift in an entity's business model. These members mentioned, for example, that if an entity starts outsourcing labour, this could lead to the outsourcing expenses being included in other line items in the statement of profit or loss, rather than in the (previously incurred) employee benefits (expenses).

Feasibility and usefulness of further disaggregating line items in the statement of profit or loss to analyse expense items

14. Some GPF members said that further disaggregating line items in the statement of profit or loss to analyse expense items would be feasible.
15. Some CMAC members said that analysing expense items at the level of line items (functions) in the statement of profit or loss was adequate for their purposes—as long as there was transparency regarding research and development expenses (if these expenses are not presented separately in the statement of profit or loss).

The location of the required information

16. The location of the required information was not discussed in all breakout sessions because time was limited. Among those members that discussed the location, there was no clear

preference regarding whether the required information should be disclosed in a separate (single) note or in a note that relates to the specific expense item.

Other comments

17. Some GPF and CMAC members mentioned that IFRS 8 *Operating Segments* already requires some of the expense items discussed to be provided by segment. Some CMAC members said that having information on expense items by segment would be useful because segments are often an important starting point for modelling. Hence, these members suggested such information be given either instead of (consolidated) information by line item in the statement of profit or loss—or alongside this information.
18. Some GPF and CMAC members asked whether the disclosure requirement would also apply to interim financial reporting. Some GPF members said that, if the disclosure were to be required for interim financial statements, it would be important to consider the feasibility of using interim financial statements as a starting point for any possible disclosure requirement for annual financial statements.
19. Some CMAC members asked whether preparers could provide information from the management accounts and some GPF members said that providing information that is available in the management accounts could be worth exploring because such information would be readily available (but caveated that by saying that not all internal information can be provided to users due to its sensitivity).

Unusual income and expenses

20. This session obtained feedback from CMAC and GPF members to help the IASB's future discussion on unusual income and expenses.
21. The staff updated CMAC and GPF members on the IASB's redeliberations on the proposal relating to unusual income and expenses. This update was followed by breakout sessions to obtain members' views on:
 - a. the population of income and expenses captured by the definition; and
 - b. the period to be considered in making the assessments required by the definition (the assessment period).
22. IASB members summarised the respective breakout discussions. These summaries are reflected in paragraphs 23–33.

The population of income and expenses captured by the definition

23. The staff set out a working definition of items with limited recurrence (unusual items) based on the IASB's recent redeliberations:

Income and expenses have limited recurrence when it is reasonable to expect that income or expenses that are similar in type and amount will cease, and once ceased will not arise again, before the end of the assessment period.

24. The staff also provided three examples for CMAC and GPF members to consider:
- a. a one-time restructuring that was expected to give rise to expenses in three annual periods;
 - b. revenue and expenses from a product line that was expected to be discontinued in the next year; and
 - c. revenue and expenses that were expected to increase in the next few years because of expected internal growth or an expected acquisition.
25. CMAC and GPF members all agreed that the definition of unusual income and expenses should only capture items such as the first example in paragraph 24(a) and not items such as the second and third examples in paragraph 24(b)–(c). Information about the second and third examples is a matter of capital market communication beyond the financial statements. For items such as the first example, some members emphasised that the definition should include income and expenses that are unusual because of their amount as well as items that are unusual because of their type.
26. Some GPF members said the IASB should not try to develop a definition of unusual income and expenses. What is unusual will vary from entity to entity and it is impossible to create a definition that all entities could apply appropriately. These members said the IASB should instead create a principle and require management to use its judgement to determine what is unusual for the entity in the context of that principle. Some GPF members suggested reinstating the requirement in paragraph 97 of IAS 1 for an entity to disclose the nature and amount of material items of income and expenses.
27. Some CMAC members said the IASB should create a definition of unusual income and expenses. Without such a definition, the information provided about unusual information could be incomplete. They agreed that what is unusual will vary from entity to entity. These members said they can use their judgement in assessing how to treat the various items disclosed, but they can only assess what has been disclosed.
28. Some CMAC and GPF members suggested the IASB create a list of income and expenses that should be regarded as unusual—for example, restructuring expenses, impairments and litigation expenses.
29. Some members warned against having requirements that relied on forward-looking information, especially any requirements for disclosure of such information.

The assessment period

30. The staff provided a list of possible ways for an entity to determine the assessment period referred to in the definition:
- a. using a period of budgets and forecasts;
 - b. using a period or range specified by the IASB (very initial thinking—two to four years); and

- c. using a period decided by the entity.
31. Members expressed differing views on the assessment period.
 32. Some said using the period of budgets and forecasts would introduce a lack of consistency, because the period of budgets and forecasts varies between entities. Others said a reference to budgets and forecasts would be helpful, and regarded getting an appropriate entity-specific period as more important than consistency between entities.
 33. Some said the IASB should not specify a period or range, but others supported such an approach. Suggestions for such a period were two years, two to three years and less than five years. Some said the period might depend on the type of income or expenses being considered.

Next steps

34. The IASB will consider feedback from CMAC and GPF members when it redeliberates the proposals at a future IASB meeting.

Post-implementation Review of IFRS 9—Classification and Measurement

35. This session provided CMAC and GPF members with an overview of the results of the Post-implementation Review of IFRS 9—Classification and Measurement and sought CMAC and GPF members' views on the specific issue of financial instruments with ESG-linked features.
36. CMAC members were asked:
 - a. what information do you need about contractual terms that could change contractual cash flows based on entity-specific targets for financial assets and for financial liabilities?
 - b. how do you use this information?
 - c. do you distinguish between ESG-related targets and other features that could affect contractual cash flows?
37. GPF members were asked:
 - a. do you treat loans with ESG-linked features differently from other loans?
 - b. are there particular types of information that companies collect about ESG-linked features for risk management or financial management purposes?
 - c. have you received any questions from investors on loans with ESG-linked or other similar features?
 - d. does the availability of ESG-linked finance affect business strategy?
38. IASB members summarised the answers GPF members gave during the breakout sessions:
 - a. many GPF members do not have ESG-linked types of loans or borrowings.

- b. GPF members who have ESG-linked loans mentioned that they carefully monitor the achievements of the targets. Although the effect of the ESG-linked features on their interest payments is not financially material, achieving the ESG targets is important from a reputational perspective. These members are also receiving an increasing number of questions from investors on their overall ESG strategy and progress.
39. IASB members summarised the answers CMAC members gave during the breakout sessions:
- a. CMAC members indicated that they were either indifferent to the measurement basis of ESG-linked loans or favour amortised cost. Both CMAC and GPF members expressed concerns about measuring the fair value of these types of loans because limited market data is available. These members also expressed concerns about reliability and auditability if fair value measurement were to be required for ESG-linked loans.
 - b. Some CMAC members reported that they do not treat ESG-linked features differently from other covenants or factors that could affect future cash flows on loans.
 - c. CMAC members mentioned information relating to ESG-linked features that would be beneficial if it were disclosed:
 - i. the amount of ESG-linked loans, including as a proportion of the total loans; and
 - ii. the contractual conditions and their potential effect on future cash flows.
40. CMAC members said that information relating to ESG-linked features should be disclosed in the financial statements and needs to be audited when the volume of these types of loans becomes material.
41. Most CMAC and GPF members responded that the market is relatively small but is expected to grow fast. These members welcomed standard-setting to clarify the measurement basis of these loans. They said that the amortised cost accounting for ESG-linked loans would provide useful information.

Next steps

42. The IASB will consider feedback from CMAC and GPF members when it redeliberates the proposals at a future IASB meeting.

Goodwill and Impairment

43. This session sought CMAC and GPF members' views on the best way forward for the IASB in improving disclosures about business combinations while balancing users' needs and preparers' concerns.

44. In particular, CMAC and GPF members discussed the preliminary views the IASB expressed in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*. The preliminary views are to develop proposals amending IFRS 3 *Business Combinations* to add:
- a. additional disclosure objectives;
 - b. requirements to disclose information about the subsequent performance of business combinations; and
 - c. a requirement for an entity to disclose quantitative information about synergies expected from a business combination.
45. CMAC and GPF members discussed:
- a. feedback on the preliminary views (paragraphs 46–48);
 - b. possible ways forward (paragraphs 49–64); and
 - c. other matter (paragraph 65).

Feedback on the preliminary views

46. CMAC members confirmed the need for better information about business combinations. In particular, some CMAC members said they need information about the economics of the business combination rather than additional information about goodwill.
47. Some CMAC members said that some entities do disclose the information users need—but not all entities do. Therefore, disclosing information that would be provided by applying the preliminary views would improve the information users receive. Over time, this enhanced information could improve users' capital allocations.
48. GPF members reiterated their concerns about the IASB's preliminary views. In particular, some GPF members said the information an entity would disclose by applying the preliminary views could:
- a. be commercially sensitive, be difficult to disclose if an entity integrates the acquired business, or be difficult to audit.
 - b. result in additional litigation risks. These risks could arise in jurisdictions that provide an entity legal protection from litigation for information disclosed in management commentary, but not for information disclosed in financial statements.

Possible ways forward

49. CMAC and GPF members provided feedback on different ways forward:
- a. requiring information to be disclosed for only a subset of business combinations (paragraphs 50–54);
 - b. exempting entities from disclosing particular information in specific circumstances (paragraphs 55–57);
 - c. requiring only qualitative information in the year of acquisition (paragraphs 58–60);
 - d. specifying the metrics an entity would disclose (paragraphs 61–62); and

- e. other suggestions (paragraphs 63–64).

Requiring information to be disclosed for only a subset of business combinations

- 50. CMAC and GPF members expressed mixed views on whether the IASB should require entities to disclose information for only a subset of business combinations.
- 51. Many CMAC and GPF members said that the information described in paragraph 44 should be required for all material business combinations.
- 52. Some of these members also suggested clarifying that any requirement to disclose quantitative information about expected synergies would apply only if those expected synergies are material.
- 53. However, many CMAC and GPF members said requiring information for only a subset of business combinations could represent a good compromise between users and preparers. Some members said the IASB should identify the relevant subset of business combinations—considering both quantitative and qualitative factors.
- 54. Some CMAC members also suggested requiring entities to disclose information in aggregate for business combinations that are individually immaterial but are acquired as part of a series of acquisitions.

Exempting entities from disclosing particular information in specific circumstances

- 55. Some CMAC members had reservations about entities potentially overusing an exemption. However, most CMAC and GPF members agreed there could be circumstances in which an entity should be exempt from disclosing the information that would be required by applying the preliminary views. CMAC and GPF members identified two circumstances in which it may be appropriate to provide an exemption:
 - a. when the information is commercially sensitive; and
 - b. when disclosing the information in financial statements would provide less protection from litigation risk than disclosing that information in management commentary.
- 56. Some CMAC and GPF members agreed that any exemption should be available only for particular types of information. These members agreed that an entity should:
 - a. be able to apply any exemption only to information about management's targets for the business combination; and
 - b. be required to disclose qualitative information about its strategic rationale and objectives for all business combinations.
- 57. Some CMAC and GPF members said that when an entity uses an exemption, it should be required to disclose other information. A few CMAC members said that although the information required by applying the preliminary views is the information users need, if the entity were to be

exempted from disclosing some of that information, requiring an entity to disclose why it did not disclose that required information would be useful.

Requiring only qualitative information in the year of acquisition

58. CMAC and GPF members expressed mixed views on whether entities should be required to disclose only qualitative information in the year of acquisition, with quantitative information only being required in subsequent years.
59. Some members agreed that requiring disclosure of only qualitative information in the year of acquisition could be a useful alternative because it would avoid an entity being required to disclose information about management's targets for the acquisition.
60. However, other members disagreed. They said:
 - a. information about actual performance in subsequent years could be difficult to understand without the context of management's targets.
 - b. quantitative information is needed to support qualitative information about the entity's objective.
 - c. requiring only qualitative information in the year of acquisition would not resolve concerns about disclosing information when an entity integrates an acquired business.

Specifying the metrics an entity would disclose

61. CMAC and GPF members generally agreed that the IASB should not specify metrics that entities would be required to disclose for all business combinations.
62. These CMAC and GPF members said entities acquire businesses to meet various objectives and may integrate acquired businesses into their business in various ways. Therefore, management should determine the metrics that best reflect the objective of the business combination.

Other suggestions

63. A few CMAC and GPF members suggested improving the disclosure requirements for business combinations in IFRS 3. For example, one CMAC member said more detailed information about the contribution of the acquired business (often called pro forma information) would help clarify a business combination's effect on an entity.
64. A few CMAC members said that they could accept quantitative information about expected synergies as a total amount rather than aggregated by nature.

Other matter

65. A few GPF members said the information that an entity would be required to disclose by applying the preliminary views (see paragraph 44) should be disclosed in management commentary rather than in financial statements.

Next steps

66. The IASB will consider comments from members as it continues to redeliberate its preliminary views. The IASB is expected to decide on whether and how to advance the preliminary views described in paragraph 44 in Q3 2022.

ISSB update and ISSB exposure drafts

67. This session provided GPF and CMAC members with an update on the formation of the International Sustainability Standards Board (ISSB) and an overview of the consultations on the two exposure drafts out for comment.
68. ISSB technical staff provided members with an overview of:
 - a. the latest update on the establishment of the ISSB, including developments since the ISSB was first announced in November 2021 and the ISSB's current focus;
 - b. the Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*;
 - c. the Exposure Draft IFRS S2 *Climate-related Disclosures (Climate Exposure Draft)*; and
 - d. the next steps for the exposure drafts and the ISSB's other technical priorities.
69. Members asked questions about:
 - a. whether preparers could face challenges in providing quantified forward-looking information and whether qualitative information would be adequate;
 - b. whether preparers complying with the *Climate* Exposure Draft would be compliant with the recommendations of the Task Force on Climate-related Financial Disclosures;
 - c. whether an entity would need to assess the climate scenario it expects will occur in reality;
 - d. whether staff have been engaging with the Greenhouse Gas Protocol issuing bodies;
 - e. whether the ISSB expects sustainability disclosures to be included in the financial statements;
 - f. when staff would expect entities to apply the requirements in the exposure drafts after the resulting Standards are issued; and
 - g. whether the ISSB is considering the complexities of the proposed requirements for SMEs.
70. Members also asked questions about:

- a. how assurance is being factored into the development of the exposure drafts;
- b. how the ISSB is approaching the cost–benefit analysis of its proposals;
- c. how users of Sustainability Accounting Standards Board Standards will be affected once the Value Reporting Foundation is consolidated with the IFRS Foundation;
- d. how the ISSB’s proposals would fit with various jurisdictional requirements on climate and wider sustainability matters; and
- e. how the ISSB is being funded.

Next meetings

The next CMAC meeting will be held on 6 October 2022. The next GPF meeting will be held on 11 November 2022.