REPORT ON THE INTERNATIONAL FORUM OF ACCOUNTING STANDARD SETTERS (IFASS)

12/13 April 2018, Mumbai

IFASS is an informal network of national accounting standard setters (NSS) from around the world, plus other organisations that have a close involvement in financial reporting issues. It is a forum at which interested stakeholders can discuss matters of common interest. The group is currently chaired by Liesel Knorr, former President of the Accounting Standards Committee of Germany.

IFASS met in Mumbai, Republic of India, on 12-13 April 2018 and discussed the agenda items set out below.

The public meeting was attended by representatives of standard setters from Australia, Austria, Belgium, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Malaysia, Mexico, Nepal, Netherlands, South Korea, Spain, Switzerland, Taiwan, United Kingdom, and the United States of America. Representatives of the European Financial Reporting Advisory Group (EFRAG), the International Accounting Standards Board and its staff, the International Arab Society of Certified Accountants (ASCA), and the Pan African Federation of Accountants also attended. A complete list of participants is attached. A number of observers were present.

Items 2: Opening remarks & Administrative matters

Following the ceremonial opening Liesel Knorr welcomed participants to Mumbai and thanked the Institute of Chartered Accountants of India for hosting the meeting. She further advised on the dates and the locations for the next two meetings. IFASS will meet next time in London on 2 and 3 October 2018 following the IFRS Foundation's World Standard Setters Conference. The subsequent IFASS meeting is scheduled to be held in Argentina in late March 2019, the exact location and date are not determined yet.

Item 3: Continuation of the internal discussions

(paper ref: IFASS 0418 AP 2)

Purpose of this session was to review current procedures/arrangements for sharing information about research, conducting outreach, sharing information about implementation activities, and setting the agenda of IFASS meetings. The chair briefly introduced the current status and asked participants for their opinion as to whether there was a need for improvements and what these might be.

Participants acknowledged it would always be helpful to know of current and past activities of other organisations. For the cooperation between IFASS participants the forum would be a good basis for linking similar interests. One representative expressed the view that the IFASS ShareFile should be used more intensively, in particular for outreach activities carried out by IFASS participants. Others noted, however, that each organisation should be responsible for informing itself. The chair noted that the number of meetings or other correspondence between IFASS organisations (other than IFASS meetings) is increasing and that this would be an important outcome of IFASS. She further concluded, that nothing needed to be installed in addition to what is already in place regarding the sharing of information about research. All organisations would be welcome to post research papers at the IFASS sharefile.

With respect to sharing information about implementation activities, one participant expressed some reservations, as local implementation activities would be designed to support local preparers exclusively. The related documents are therefore prepared in local language.

The remaining issue of this session was setting the agenda of future meetings. This issue relates to the content and the process of agenda setting. Liesel Knorr reiterated the question if participants would welcome pure update sessions. Although views given at earlier meetings had indicated that preference should be placed on exchanging views and information as well as discussions rather than on pure updates, some had requested some kind of updates recently. Participants noted that there may be several types of updates. Most participants, not all, agreed that regional updates focusing on reporting recent activities should not be reintroduced as agenda items. They may be provided as meeting papers without allocating agenda time. In contrast, update sessions may be deemed interesting if they dealt with current activities of the main regional players, such as the European Commission's Fitness check on the EU framework for public reporting by companies.

After having briefly described the current process of agenda setting the Chair asked for views on how to improve it. Expressions made by participants included that the Chair should be in the position, first, to decide on what is taken to the agenda and, second, to demand contributions by IFASS participants in case no one volunteers. When proposing items for future meetings some participants highlighted digital currencies as an issue of high interest and broader reach.

Item 4.1 Proposals on the Goodwill and Impairment project (of the IASB)

(paper ref: IFASS 0418 AP 4.1)

Michelle Sansom (IASB staff) presented the issue introducing the background briefly and, in more detail, the IASB's headroom approach that is designed to improve the effectiveness of goodwill impairment testing. She asked the participants to discuss two questions in groups. Firstly, the participants were asked whether they think disclosure of the basis used for attributing the decrease in headroom provides useful information, and, second, they were asked to highlight the nature and extent of costs that entities may have to incur in applying the headroom approach.

Participants welcomed addressing the issue in general. Some agreed that the IASB could consider ways to target the so called shielding effect caused by current practice; however, others disagreed and were concerned with the starting assumptions used in the headroom approach. Some supported the idea of requiring disclosure of the basis used for attributing the decrease in headroom; however, others questioned if the headroom approach was the best solution overall. In addition, the rebuttable presumption that the first layer of decreases in value of the cash generating unit's (CGU) recoverable amount is attributable to the acquired goodwill was considered hard to refute, and thus, not deemed practicable by some participants. Others added that providing some criteria might help rebutting this presumption. All in all, the IASB's headroom approach was mainly criticised for carrying remarkable complexity that, in particular, derives from the day 2 accounting, e.g. in case of changing business segmentation or changing CGUs. Therefore, entities would have to incur considerable cost in applying the headroom approach. Some participants raised the idea of amortising goodwill again but there was no broad support for that.

Item 4.2 The IASB's work on Implementation

(paper ref: IFASS 0418 AP 4.2, IFASS 0418 AP 4.2i)

The objective of this session was to discuss the IASB's recent activities to support implementation, in particular the work done by the IFRS IC. Sue Lloyd (IASB Vice Chair and IFRS IC Chair) gave a brief update on recent implementation projects carried out by the IASB and the IFRS IC and explained the IFRS IC's approach when responding to questions submitted. Afterwards she replied to a number of questions raised by participants. Ms. Lloyd mentioned that the revised Conceptual Framework issued recently will now serve as a basis for the work of both the IASB and the IFRS IC including their implementation activities. On the question why there would be no further work on IFRS 13 Fair Value Measurement, she explained that the Board had based its decision on the observation that the issues around IFRS 13, in particular the P x Q question, do not arise very often. However, she indicated the current work on the Disclosure Initiative might bring the IASB back to IFRS 13 as the Board and the staff are considering starting pilot projects on two IFRS Standards to enhance the effectiveness and relevance of disclosures, of which IFRS 13 could be a good candidate as the PiR had revealed that disclosures on Fair Value Measurement proved challenging.

Item 5 Jurisdictional/Standardsetters' updates

This agenda item comprised three sessions as set out below.

<u>1. Relevance of parent and/or subsidiary financial statements if consolidated financial statements are available</u>

(paper ref: IFASS 0418 AP 5.1)

The first part of this agenda item was dedicated to an issue raised by the Australian Accounting Standards Board addressing the question whether users of financial information were in need of a full set of parent or subsidiary separate financial statements for the decisions they have to make if consolidated financial statements of the group are available. Before going into group discussions, Kris Peach (AASB) gave a brief introduction including a reference to the Australian legislation which had abandoned the requirement to issue a full set of parent entity financial statements in case the parent issues consolidated financial statements. She further reported that New Zealand went beyond that, where such exemption is available for subsidiaries in general, whereas in Australia that exemption is only available for wholly-owned subsidiaries when there is a deed of cross guarantees between the entities within the group.

The groups were asked to choose one or more of the questions raised in the paper presented and to discuss them, including the legal requirements in the jurisdictions represented at the meeting and the participants' views on certain aspects of the issue.

With respect to the legal requirements in the jurisdictions represented, participants noted a wide range of requirements. To name some examples of feedback given in this regard: IFRS are required for separate financial statements in some jurisdictions, whereas in other jurisdictions the use of IFRS is permitted. Many jurisdictions require IFRS for consolidated financial statements only in case of listed parent entities. In other jurisdictions, holding companies need to issue a balance sheet only in certain circumstances. Also the timing varies: in some jurisdictions the consolidated financial statements are issued first, whereas in other jurisdictions the separate financial statements precede the consolidated financial statements.

As to the question whether and by what means a full set of financial statements may be replaced, it was noted that disclosure might have merits as the figures presented in separate financial statements might be distorted as they ignore the fact that counterparties in financial transactions could act under common control. Other participants took the view, that it might not be sufficient to replace separate financial statements by summary information. This would particularly be the case when separate financial statements are the basis for the distributions of dividends or – taking the users' perspective - when group companies are financed by parties outside the group or when non-controlling interests exist.

In summary, as different jurisdictions use financial statements in different ways as the basis for taxation, cash transfers etc., separate financial statements will continue to be necessary. However, participants agreed there is a need for further work on the disclosures in consolidated financial statements regarding the risks to the group as a result of its structure (eg dividends, tax, liquidity etc).

2. Q&A on IASB's Work Plan incl. Research Project Pipeline

(paper ref: IFASS 0418 AP 5.2)

Nili Shah (IASB staff) highlighted some of the issues the IASB has been working on, and plans for the future months. She gave more detail on the prioritisation of research projects by the board and the timing of these.

She further informed the participants about the IASB's decision on the Post-implementation Review (PiR) of IFRS 13: they would issue a Feedback Statement and close the project (see the notes on item 4.2 of this report). The Discussion Paper Financial Instruments with Characteristics of Equity is scheduled for issue end of June 2018 and will have a six months comment period. A further consultative document on Goodwill impairment is expected to be published by the end of 2018. The board would still consider issuing an Exposure Draft, in that case it might take a bit longer to finalise the document.

The question was raised what made the IASB postpone the research on the equity method until the PiR on the consolidation package (IFRS 10 to 12) is undertaken. Ms Shah explained the IASB would get valuable insights from the PiR that might affect the work on the equity method. Furthermore, they would give preparers more time to work with the standards.

Regarding the IASB's Management Commentary project, she informed the forum about the plan to update the Practice Statement for a number of developments around the world, e.g. regarding long term strategy for value creation, business plans, and intangibles. A consultative group is about to be set up by the board.

Furthermore, Ms Shah addressed the IASB's plan on Dynamic risk management and informed the forum that the board will develop the main outline of the core model and issue a consultation document (not in form of a Discussion Paper) by 2019 to obtain an initial feedback by constituents.

3. Recent developments in the work of the Not-for-profit working group

(paper ref: IFASS 0418 AP 5.3)

Jeffrey Mechanick (FASB, member of the international not-for-profit working group) informed the forum about the progress the Not-for-profit working (NFP) group has made during the last months. He introduced the web based international NFP Platform and its content, gave an update on the Good Financial Grant Practice Programme, an initiative of the African Academy of Sciences, and presented possible links to IFASS followed by an invitation to IFASS participants to join the working group.

Questions by participants asked if the IASB should assume the task of developing financial reporting standards for NFP entities. Others doubted this to be feasible due to highly diverse legal environments these entities operate in. Patrick de Cambourg (ANC) reported that the ANC will issue a reporting standard for not-for-profit companies in France. Anthony Appleton (FRC) welcomed the group's work as it might serve as a blueprint for national standard setters in developing jurisdictional guidance, where necessary.

Item 6 Facilitating the adoption of new IFRSs

This agenda item comprised three sessions as set out below.

<u>1. IFRS 15: Enforceable right to payment: Off-plan apartment complex construction contracts</u>

(paper ref: IFASS 0418 AP 6.1; IFASS 0418 AP 6.1 pres)

Sungsoo Kwon (KASB) presented two cases observed in Korea where an entity performs the construction of an apartment house over a certain construction period. The facts in both cases differ with regard to the point in time when the agreements are entered into with the customers, and the termination conditions. For example, the agreement with the customer is entered into at the date of commencement of construction in case 1, whereas the agreement in case 2 is reached after beginning the construction. This and the other facts result in revenue in case 1 being recognised over time and in case 2 being recognised at a point in time. Further details are described in the papers mentioned above.

There was generally no disagreement on the KASB's view re case 1. However, participants' comments included that the focus should be on the entity's ability to enforce payment by the customer rather than the customer's right to terminate the contract within a certain period of time. (What are the constructor's rights and how much are they actually entitled to if the customer cannot perform the obligation to pay.) However, it was noted that there may need to be a separate assessment of the land and building components to determine if the relativity of the prepayments really matches the underlying asset value.

Participants raised some questions on the fact pattern for case 2; however, there was also generally no disagreement on the KASB's view re case 2. It was noted that the fact the deposit is not refundable if the customer chooses to cancel might not be relevant for the analysis of the whole contract; however, if the constructor does not satisfy his performance obligation (deliver the building) the customer will have a claim on the constructor to demand the deposit back. Furthermore, it was observed that the ultimate conclusion was the same regardless of the percentage of completion after three months was 15%.

Sue Lloyd added the IASB staff had had a look at the analyses presented for both cases and had agreed with KASB's views. In addition, para 37 of IFRS 15 was written with the intent to be very specific with the rationale to help preparers in complying with the requirements of para 35. Thus, the criterion of entitlement to the customers' payment should be constantly met.

In agreement with KASB's view, some participants raised concerns with regard to the revenue being recognised only at a point in time after 30 months in case 2. Although, the constructor's risk position is worse than in case 1 overall, the accounting outcome for case 2 does not appear intuitive given the fact that the risk position in case 2 significantly changes after three months, then being the same as in case 1. Therefore it was doubted whether the accounting for case 2 presents useful financial information. Others noted that economically the transactions are different, as the risk profile is different. Andrew Watchman (EFRAG) and Tommaso Fabi (OIC) proposed considering a continuing reassessment principle for IFRS 15, and the IASB might do so when performing the PiR on the standard.

<u>2. IFRS 16: Exchange of lessons learned</u>

(paper ref: 0418 AP 6.2)

The chair gave a brief introduction to this agenda item and informed the forum about the feedback written by the HKICPA on their IFRS 16 implementation activities.

Linda Mezon pointed to the IFRS discussion group of the AcSB of Canada. They had recently discussed a number of issues regarding IFRS 16. Reports on this group's meetings and audio recordings are publicly available on the AcSB website http://www.frascanada.ca. She further advised on the meeting live stream that would be available from June 2018.

Sue Lloyd informed the forum on the IFRS IC discussion in March 2018 having regard to the new IFRS 16 for the first time.

As there was no further feedback, Liesel Knorr concluded IFRS 16 might be of higher exposure and interest in the October meeting in London.

Item 7 Optional session: Facilitating the adoption of new IFRSs: IFRS 17 - Exchange of lessons learned

(paper ref: IFASS 0418 AP 7)

After a short introduction to the issue including reference to the activities performed by the HKICPA, ICAI, EFRAG, and ASCG, the chair asked participants to report on their national/regional implementation activities.

Andrew Watchman advised that the EFRAG background papers were designed to raise awareness among EFRAG's constituents about some of the issues that created discussion around the standard. He advised the forum about a detailed EFRAG triggered case study performed by a number of large European insurance companies that will deliver input for the impact analysis in light of the endorsement process. Furthermore, EFRAG had issued a call for volunteers among the user community to participate in a structured telephone interview event to provide input to EFRAG.

Patrick de Cambourg added information about the European endorsement process re IFRS 17 and concluded there was still a long way ahead given the political milestones to pass, and the election of the European Parliament in 2019. A broad diversity is observed in Europe with regard to whether or not to support the new standard, mainly triggered by a cost-benefit-debate. He further noted there were a number of technical issues to discuss, such as level of aggregation, coverage units, scope of the variable fee approach, reinsurance etc. and pointed to the delayed application of IFRS 9 the EU has made available for conglomerates.

Other participants agreed that the implementation process on IFRS 17 was still in an early stage and called for National Standard setters to share their experience gained in the coming months. Andreas Barckow (ASCG) offered to share a list of issues the ASCG working group has looked into regarding IFRS 17. However, he advised that many of these issues might be of local interest predominantly, one of them being accounting for reinsurance contracts.

Kris Peach reported on the work of the Implementation & Transition Resource Group in Australia and expressed her willingness to share links to where relevant papers can be obtained by interested parties. Also, she observed a variety of views held on the standard, albeit not as strongly as in Europe.

Also, in Canada there is a Transition Resource Group comprised of preparers, auditors, users, bringing in both actuarial and accounting backgrounds, Linda Mezon reported. Issues discussed so far include the agenda items and papers for the IASB TRG. In case the Canadian TRG identifies one or more major issues, these would go to the AcSB for discussion and deciding whether or not to submit it to the IFRS TRG. The big insurers in Canada would already be working towards implementation whereas smaller companies are still at an early stage. She offered to share links to the technical topics currently under discussion.

Similar implementation groups are working in France and Italy as reported by Patrick de Cambourg and Tommaso Fabi. The issues being discussed include annual cohorts.

Sungsoo Kwon reported on the efforts made by the insurance companies in Korea; they would be required to significantly enhance their internal valuation systems in order to meet the requirements of IFRS 17. Given the size of the sector in Korea (42 companies) and the limited availability of practice experts, this work creates quite a challenge for the industry. Those shortages and system challenges are prevalent in other jurisdictions as well, participants noted. Many insurers, except for the major ones with dedicated implementation teams, would complain about such issues and thus ask the IASB to reconsider the effective date.

In Japan, currently no insurance company has adopted IFRS; however, a number of these are carrying feasibility studies and follow the current discussions in order to decide upon IFRS adoption in the future, Yukio Ono (ASBJ) reported.

In China, the local standard on accounting for insurance contracts has been revised in 2009 based on the IASB's Discussion Paper Preliminary Views on Insurance Contracts of 2007, Huaxin Xu (CASC) informed the forum. Furthermore, the new IFRS 17 will be translated into Chinese in order to initiate the process for convergence of Chinese GAAP with IFRS. Insights will be available in due course and be shared with IFASS.

The chair concluded this session by announcing to bring back IFRS 17 implementation to the forum's attention in October.

Item 8-10 all other optional sessions in brief:

The further three optional addressed the following:

- Consolidation of Not-for-profit entities under IFRS 10 (paper ref: IASS 0418 AP 8),
- Taxonomy update (paper ref: IASS 0418 AP 9), and
- NFRS implementation in Nepal – progress and challenges (paper ref: IASS 0418 AP 10)

For agenda item 8 Shiwaji B. Zaware, Vidhyadhar Kulkarni, and Parminder Kaur (ICAI) presented a case that occurs frequently in India. In complying with the legal requirement to spend a share of their profits on Corporate Social Responsibility (CSR) activities many Indian companies form Special Purpose Vehicles (SPVs) to undertake such initiatives on their behalf. The question was whether these SPVs should be consolidated. Participants discussed the criteria in IFRS 10 for assessing control and expressed mixed views. The main issue raised was if the criteria should be assessed in a formal way (as given by IFRS 10) or if the criteria should be assessed rather based on substance. An unambiguous conclusion could not be reached.

For agenda item 9 Nili Shah presented an update on the IFRS Taxonomy. Starting with an introduction what the Taxonomy is and how it goes together with IFRS standards, she explained the linkage to the IASB's better communication projects including the activities on Principles of Disclosure, and the Primary Financial Statements project. Ms Shah further addressed opportunities and challenges, recent developments, and how interested parties can obtain assistance from the IASB. Remarks made by participants included support for the IFRS

Foundation assuming the task of developing a taxonomy as both the standard setting and the taxonomy should be addressed by the same organisation. Furthermore, participants discussed if uniformity in financial reporting should be aimed for and noted that uniformity was very hard to achieve, if at all. Therefore, accounting standards should be deemed as a compromise between comparability and flexibility. Ms Shah supported the idea of striving for the highest possible level of comparability.

In the last optional session (item 10), Narendra Bhattarai (ASB Nepal) informed the participants about the legal accounting requirements, the set up of the Accounting Standard Setter in Nepal, and the implementation of Nepalese IFRS in Nepal. Overall he noted that the adoption of NFRS in practice remains challenging, in particular with IFRS 9. Participants reported similar challenges that had been faced in their jurisdictions when adopting IFRS.

Item 11: Equity instruments: Impairment and Recycling

(paper ref: IFASS AP 11, IFASS AP 11 pres)

Andrew Watchman and Filippo Poli (both EFRAG) presented the highlights of the EFRAG Discussion paper "Equity instruments – Impairment and Recycling" that was published recently in March. They asked the participants to consider six questions that were raised in the presentation.

Q1: Does the depiction of performance of long-term investors need particular consideration in developing financial reporting standards? Why, and what are the specific characteristics?

Participants expressed mixed feelings, some supported recycling, others did not. One group of participants discussed some factors that would need to be considered in answering that question: First, it should be clarified which perspective is taken with regard to the financial information, is it the reporting entity or the investor? Second, it has to be analysed what the term performance really means, either net income or encompassing OCI as well? Participants noted that the answer will probably not be straightforward as the perspective would be crucial again. They assumed the performance for an industry company to be meaning Net income, and some participants felt that for a financial services company (that is predominantly investing in such instruments) OCI will be taken into account. Thus, performance should be viewed as a combination of both Net income and OCI.

Another group of participants struggled with the meaning of long-term investor. They favoured the notion of a strategic or a professional investor, such notion would take the ability to pay dividends into account rather than income figures.

Q2: If P&L is the main indicator of performance, does FVOCI with no 'recycling' appropriately portray the performance of long-term investors? Does recycling improve this or does it create challenges?

In continuing the thoughts expressed on the first question, it was noted that IFRS 9 is targeted mainly at financial services companies, and that investments in equity instruments are made by those entities predominantly. As for financial services companies performance can be seen as a combination of net income and OCI, there does not seem to be an issue of missing or misleading information because all information is provided. In addition there is no evidence so far showing that entities are really deterred from investing in equity instruments. In addition, the decision whether or not to invest in equity instruments is hardly depending on accounting requirements. There are other relevant factors, such as the investment environment, tax implications, regulatory thresholds.

However, that view was not shared by all participants. Some favour the compromise of Fair Value Measurement in the balance sheet on one hand and at cost measurement in the profit and loss for equity instruments and, therefore, conclude that recycling is necessary. If the FVOCI option is used the entity should recycle any gains when disposing of the instrument, non-recycling creates an information gap.

Q3: In the context of FVOCI classification, is there a conceptual link between recycling on disposal and impairment? Do we need an impairment solution to have recycling?

The participants agreed that an impairment model would be needed for recycling.

Q4: What should be the objective(s) of that impairment solution? Do the two models described in EFRAG's Discussion Paper measure up against the objective(s)?

The discussion revealed that the revaluation model was seen as more practical; however, it could bear some limitations especially in a system in which FVPL is allowed as the revaluation model routes losses to profit and loss only.

The IAS 39 model was also considered as a workable alternative but some participants raised the concern regarding the "significant *or* prolonged" condition that should be turned into a "significant *and* prolonged" condition.

Q5: Could additional disclosures provide an acceptable alternative to a solution? What information would users need in addition to what is already available in IFRS 7 (which already enables to adjust for recycling)?

Participants noted that additional disclosures could be of help. Others thought that disclosure cannot sufficiently compensate the information gap resulting from non-recycling; however, disclosures could be minimising the gap, e.g. breakdown of fair value changes in accumulated losses and accumulated gains, to specify what investments have significantly lost in fair value.

Q6: Are there other solutions worth looking at? Define 'strategic investments' and use cost? An IAS 36-based approach for some instruments? A linked asset-liability model?

Participants felt that a linked asset-liability model for assets and liability that are managed collectively might have merits but did not deliberate that idea further.

Item 12: Intangibles: First Thoughts

(paper ref: IFASS AP 12, IFASS AP 12 pres)

Andrew Lennard (FRC) introduced the FRC's research project on the accounting for intangibles. This project's objectives are to review current business reporting of intangibles; and to develop proposals for their improvement that can be expected to be implemented in the near future. Mr. Lennard further introduced the idea of disclosure on expenditures on future-oriented intangibles, i.e. expenses incurred for intangibles that do not meet the asset definition.

He tasked the forum with five questions to be discussed.

Q1: What advice would you give to the FRC on the objectives and scope of the intangibles project?

In general, taking up that issue was highly supported by the forum. It was noted that in large companies the value of the entity and the book value differs significantly. This rift would be increasing mainly due the ongoing growth of the services sector whose value is predominantly determined by intangible resources whereas tangible assets decrease to be of importance.

It was seen as unlikely that this growing gap between entity value and book value to be closed but it should be diminished. Participants agreed with the objectives in general; however, some thought it might be not very beneficial to spend much time on recognition of intangibles. Instead, it should be assessed what disclosures could be meaningful for the users of financial statements.

Other participants proposed in addition that it may be worth considering sector specific guidance for the identification of intangibles as there would be significant differences in intangibles across different industries.

Q2: Should the existing definition of assets and the recognition criteria be changed to permit more intangibles to be reported as assets in the financial statements? If so, what changes should be considered?

Participants expressed mixed views. If completeness of financial statements was prioritised, the conclusion to put more intangibles on the balance sheet would seem plausible. On the other hand, narrative reporting and disclosures are always helpful, but there is a risk of missing connectivity. Ultimately, an entity would need to demonstrate how the intangibles tie back to the financial performance.

However, participants acknowledged that measuring intangibles is challenging; however, that should not be an excuse for not taking up the issue because of the growing importance of intangibles. The FRC might consider working first on the recognition and measurement issue and – if that turns out not to be feasible – second on disclosures and narrative reporting but taking into account what integrated reporting calls linkage or connectivity.

Q3: Should the separate reporting of expenditure on future-oriented intangibles be required? If so, what are the main challenges in introducing such a requirement?

Basically, the expenditures on future-oriented intangibles approach was supported; however, participants felt it should be accompanied by qualitative information about the benefits expected from those projects. Some hesitated to support the idea of reporting numbers, as this may suggest an inappropriate level of reliability.

Some participants were unsure what was meant by the terms “future-oriented” and intangibles in this context. Disclosure what was spent on a certain activity is a measure of input but it gives no particular insight of the value creation resulting from that input. Thus, this approach would bear some limitations. In addition, participants noted that the information on the expenditures deemed to have benefited in the current year requires judgement to a remarkable extent.

Q4: Do you agree that narrative reporting including metrics can assist users of financial statements in assessing an entity’s intangibles? Are there factors that significantly enhance the relevance of metrics that are not addressed in the paper?

Participants felt this question was difficult to answer; however, the views expressed indicated that participants did not think there is a systematic method to report the metrics because of the variance in the different entities’ operations. Therefore, this approach might bear a significant level of uncertainty. The IASB might consider this when amending the Practice Statement on Management Commentary.

Q5: How could accounting standard-setters assist in the implementation of the ideas suggested in the paper for narrative reporting? Which other parties should be involved, and what would their role be?

The specific question was not discussed.

Participants discussed the narrative reporting as an overall concern and agreed, that the current fragmentation in reporting is not sustainable. The way integrated reporting deals with intangibles was highlighted.

Andrew Lennard closed the discussion by a call for interested parties to participate in this project for instance by sharing their experience with the FRC.

Item 13: BCUCC – Follow-up from London 2017

(paper ref: IFASS AP 13.1 pres; IFASS AP 13.2, IFASS AP 13.3)

In continuing the discussion of the recent IFASS meeting in London, Tommaso Fabi (OIC) informed the forum about the progress made on the joint project of HKICPA and OIC on BCUCC. Meanwhile, the survey had been conducted to understand whether investors evaluate the underlying substance of mergers and acquisitions under common control and mergers and acquisitions with third parties differently. Mr. Fabi presented the main findings and asked the participants to discuss a few questions related to some examples given in the meeting material.

In a transaction in which a direct subsidiary with NCI acquires another direct subsidiary of the parent the participants concluded that the acquisition method should be preferred regardless of the transaction's purpose. However, the NCI element which is likely to make the cash consideration to be at market value would be relevant.

For a transaction in which two direct subsidiaries of a parent are acquired for issuance of shares by a newco (owned by the parent) that is going to be listed, most participants did not support applying the acquisition method; some favoured the predecessor method. It was furthermore considered to offer an option to reporting entities as to which method to apply; however, the proponents acknowledged comparability issues would arise. In addition, the facts and circumstances should be duly taken into account, for example, whether the newco will undergo an IPO.

Other participants expressed the opinion that the acquisition method was not appropriate in the circumstances given in this case. To end up with Fair Value measurement in one and with cost measurement in the other subsidiary would be a bad outcome and that fresh start accounting would be more appropriate.

In another example a direct subsidiary financed by a bank acquires another direct subsidiary to streamline the whole group's operation. Participants discussed several variations of this case. With regard to the questions raised on which method is to be preferred the views were split; however, many participants preferred the predecessor method. It was deemed irrelevant if there were NCI or a bank financing the operations of the acquiring entity. If the bank was only interested in the creditworthiness of the acquirer it would not be of importance if the values of the entity's assets were re-assessed or if the bank received a contribution from the parent entity.

One other comment reflected that the acquisition method should be considered to be useful in any event; however, the cost of applying this approach might not justify its benefits.

Item 14: Primary Financial Statements: Some issues arising in IASB's current projects

(paper ref: IFASS AP 14, IFASS AP 14 pres)

In light of the IASB's activities on Primary Financial Statements, Andrew Lennard shared some personal views on the Board's ideas. He highlighted the trade-off between the two important notions of comparability and telling the story through the eyes of the management. The groups were asked to discuss three issues: disclosure of operating profit, separate presentation of non-recurring items, and the definition of finance expense.

Most participants agreed that it should neither be prohibited nor required to disclose operating profit. Standard setters should define operating profit in general, and entities should be allowed to disclose it. Very few participants disagreed and took the view that it should be required to disclose operating profit for the sake of proper financial analysis and that non-recurring items should be disclosed separately not as part of operating profit. That again was countered by other views according to whether the term non-recurring items should not be used at all as it had turned out that the term cannot be defined. Notwithstanding, some items should be separately presented anyway, for example so called exceptional items that are already required to be separated for materiality reasons. The predictive nature of financial statements would play a further important role in this regard. Others voiced that operating profit should not be limited to its predictive nature, in addition, the role it plays for assessing management's stewardship needs to be taken into account.

Participants discussed whether finance expense should reflect only the expense of an entity's capital structure or should include all expenses which have a financing element and considered it should be closely related to the definition of EbIT. Although participants felt that EbIT should exclude all expenses related to the capital structure prima facie, they were inconclusive in the end as to whether EbIT should exclude effects from measurements based on time value of money other than borrowings. Summarising, there was a slight majority expressed for defining the "I", i.e. finance expense, to include expense of an entity's capital structure only. All other interest-like expenses should be presumed to have an operating nature. However, in the participants' views, there should be a certain degree of flexibility granted to an entity as to what is included in the finance expense; thus, it is – as a matter of a leading principle – more important to sufficiently disclose which elements are in and which are not.

Item 15: Concluding remarks and vote of thanks

The chair noted the upcoming IFASS meetings, London 2nd and 3rd of October, and Argentina, end of March 2019. She warmly thanked the Institute of Chartered Accountants of India for hosting this meeting and making all arrangements around the meeting including the welcome dinner on the evening of the first meeting day.

Shiwaji B. Zaware, and Vijay Kumar, chairman and vice chairman of the Indian Accounting Standards Board respectively, thanked the participants for their contributions, the organisers of the meeting and the IFASS chair for having the meeting in Mumbai.

Liesel Knorr thanked all participants and closed the meeting.

Action List

IFASS Chair/Secretariat
• To develop the online meeting survey and invite participants to it • To call for agenda proposals for the IFASS meeting in October 2018 • To circulate links and call for further links to be provided by participants on implementing IFRS 17, make links available to all participants
All IFASS participants
• To provide links to participants' activities on the implementation of IFRS 17 • To advise IFASS secretariat (secretariat@ifass.net or chair@ifass.net) of potential agenda items for the meeting in October 2018 so that they can be included in the first draft of the agenda

List of participants

	Name	Organisation
1	Kris Peach	AASB (Australia)
2	Linda Mezon	AcSB (Canada)
3	Andrew White	AcSB (Canada)
4	Gerhard Prachner	AFRAC (Austria)
5	Patrick de Cambourg	ANC (France)
6	Cédric Tonnerre	ANC (France)
7	Doris Yi Hsin Wang	ARDF (Taiwan)
8	Margaret Tsui	ARDF (Taiwan)
9	Narendra Bhattarai	ASB (Nepal)
10	Shashi Satyal	ASB (Nepal)
11	Prabin Dhoj Joshi	ASB (Nepal)
12	Yukio Ono	ASBJ (Japan)
13	Atsushi Kogasaka	ASBJ (Japan)
14	Yasunobu Kawanishi	ASBJ (Japan)
15	Andreas Barckow	ASCG (Germany)
16	Sadi Podevijn	BASB (Belgium)
17	Huaxin XU	CASC (China)
18	Minzi ZHANG	CASC (China)
19	Felipe Pérez Cervantes	CINIF (Mexico)
20	Peter Sampers	DASB (Netherlands)
21	Andrew Watchman	EFRAG
22	Filippo Poli	EFRAG
23	Jeffrey Mechanick	FASB (USA)
24	Anthony Appleton	FRC (UK)
25	Andrew Lennard	FRC (UK)
26	Sue Lloyd	IASB
27	Nili Shah	IASB
28	Michelle Sansom	IASB
29	María Dolores Urrea Sandoval	ICAC (Spain)
30	Naveen N D Gupta	ICAI (India)
31	Prafulla Chhajed	ICAI (India)
32	Shiwaji Bhikaji Zaware	ICAI (India)
33	Vijay Kumar	ICAI (India)
34	Nihar Niranjan Jambusaria	ICAI (India)
35	Dhinal Shah	ICAI (India)

	Name	Organisation
36	Nilesh Shivji Vikamsey	ICAI (India)
37	Shyam Lal Agarwal	ICAI (India)
38	Sanjay Vasudeva	ICAI (India)
39	Debashis Mitra	ICAI (India)
40	Devaraja Reddy	ICAI (India)
41	Vidhyadhar Kulkarni	ICAI (India)
42	Singgih Wijayana	IFASB (Indonesia)
43	Liesel Knorr	IFASS
44	Thomas Schmotz	IFASS
45	Vinod Rai	IFRS Foundation (Trustee)
46	Oussama Tabbara	International Arab Society of Certified Accountants
47	Eui-Hyung Kim	KASB (South Korea)
48	Sungsoo Kwon	KASB (South Korea)
49	Jae-Ho Kim	KASB (South Korea)
50	Mohamed Raslan Abdul Rahman	MASB (Malaysia)
51	Tommaso Fabi	OIC (Italy)
52	Lorenza Bignozzi	OIC (Italy)
53	Nadia De Santis	OIC (Italy)
54	Lebogang Senne	PAFA
55	Reto Zemp	Swiss GAAP FER (Switzerland)