Meeting summary

Joint CMAC–GPF meeting

Date **13–14 June 2024**
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This document summarises discussions at the joint meeting of the Capital Markets Advisory Committee (CMAC) and the Global Preparers Forum (GPF), two groups of nominated members with extensive practical experience in analysing financial information and who are established commentators on accounting matters in their own right or through the representative bodies with which they are involved. The CMAC and the GPF support the IFRS Foundation and the International Accounting Standards Board (IASB) in their objectives, and contribute towards the development, in the public interest, of high-quality, understandable, enforceable and globally accepted IFRS Accounting Standards.

CMAC and GPF members who attended the meeting.

Region	CMAC Members	GPF Members
Africa		Keshni Kuni
Asia-Oceania	Koei Otaki[a] Ge Xiaobo	Lily Hu Jay Jeong Hyeok-Park Srinath Rajanna Kazuhiro Sakaguchi Amrita Srikanth Feifei Wang
Europe	Meghan Clark Terence Fisher Oliver Gottlieb Kenneth Lee[a] Matthias Meitner[a] Philip Robinson Diego Barerro Tony Silverman Jeremy Stuber Joao Toniato[a] Larissa van Deventer	Frédéric Agnès Ernesto Escarabajal Baadenhuijsen Ian Bishop Emmanuelle Guyomard Maria Alejandra Hryszkiewicz Stephen Morris Stefan Salentin[a]
The Americas	Enitan Adebonojo Paulo Cezar Aragão Anthony Scilipoti Michael Thom	Jeff Davidson Sallie Deysel Patrick Matos[a] Michael Tovey

[a] Remote participation via videoconference.

Intangible Assets

1. The purpose of the session was to provide CMAC and GPF members with an overview of the initial research phase of the project and to seek their views on:
   (a) the overall problem that needs to be solved;
   (b) the scope of the project; and
   (c) the approach to staging the work.

Overall problem that needs to be solved and scope of the project

Views from GPF members

2. Some GPF members said that financial statements do not provide sufficient information about internally generated intangible assets and the recognition criteria should be broadened. Recognising more internally generated assets would allow entities to distinguish between future-oriented expenditure and operating expenditure. However, many other GPF members saw practical challenges to broader recognition, such as lack of reliable measurement techniques and the effect on the income statement of amortising and impairing these assets.

3. Some GPF members who did not support broader recognition said IAS 38 *Intangible Assets* still needs to be modernised to better fit current business models. Some GPF members suggested updating guidance on the definition of an intangible asset, particularly guidance on the meaning of control, and aligning IAS 38 with the revised *Conceptual Framework*. Many members requested additional guidance for specific application issues, such as cloud computing, or for specific industries.

4. Some GPF members emphasised the inconsistent recognition criteria for internally generated intangible assets in IAS 38 and for separately identifiable intangible assets in IFRS 3 *Business Combinations*. One member said that the recognition criteria should be the same regardless of whether the asset is acquired or internally developed. Some members also said the IASB needs to consider the relationship between IFRS 15 *Revenue for Customer Contracts* and IAS 38 for revenue-generating contracts with intangible elements.

5. One GPF member said that financial statements contain insufficient information about intangible assets that entities use to generate future cash flows and the IASB should therefore give high priority to enhancing disclosure requirements. However, some members had concerns about additional disclosure requirements, in particular about disaggregating expenditure on intangible items, which they said would be difficult to identify. One member said the focus should instead be on disaggregating capitalised intangible assets and providing a further breakdown of goodwill.

6. Some GPF members expressed a strong preference for measuring intangible assets (except for cryptocurrencies) at cost and not at fair value, because of the substantial judgement involved in estimating fair value, especially for unique intangible assets.

However, a few members spoke in favour of fair value measurement of intangible assets.

7. Some GPF members commented that accounting for cryptocurrencies and carbon credits should be excluded from the scope of IAS 38. They said that cryptocurrencies have the characteristics of financial instruments and not intangible items.

Views from CMAC members

8. CMAC members generally agreed that the main problem is the absence of intangible assets in financial statements. Some members suggested more intangible assets should be recognised, with one member saying management should be held accountable for expenditure on intangible assets and recognising intangible assets would make it easier to obtain and understand other information about an entity's intangible assets. Members agreed that the objective is to provide more information on intangible assets for users to understand the gap between entities' market value and book value of equity, not to close the gap.

9. Many CMAC members said the focus should not be on recognising more intangible assets. Members instead emphasised the importance of disclosures, with one member saying the focus should be on providing more information about unrecognised intangible assets—for example how they contribute to future performance. Some members suggested disaggregating expenses in the income statement, for example identifying future-oriented expenditure. A few members said that some information on unrecognised intangible assets might not belong in the financial statements.

10. A few CMAC members raised concerns about comparability between intangible assets acquired in business combinations and internally generated intangible assets. One member said achieving comparability would be impossible.

11. Some CMAC members said that, although cryptocurrencies and carbon credits are high priority topics, they might not belong in the project.

12. A few CMAC members (and one GPF member) also suggested that goodwill be excluded from the scope of the project.

Approach to staging the work

Views from GPF members

13. GPF members generally did not support an all-in-one approach on the grounds that the project would take too long to complete.

14. Some GPF members said an early evaluation approach could lead to project outcomes within a reasonable time.

15. Two GPF members expressed support for a phased approach starting with the highest priority topic. However, one member raised concern that an approach phased by topic could be difficult because the topics are too closely related. The member suggested a project phased by intangible asset type.

Views from CMAC members

16. Some CMAC members supported an early evaluation approach. Other members spoke in favour of an all-in-one approach because the topics were closely related.

17. One CMAC member (and one GPF member) suggested developing requirements on a few intangible items first and thereafter considering these requirements more broadly.

Next step

18. The IASB will consider the comments from CMAC and GPF members when it reviews stakeholder feedback at a future IASB meeting.

Statement of Cash Flows and Related Matters

19. The purpose of the session was to provide GPF and CMAC members with an overview of feedback from the Third Agenda Consultation regarding a project on the statement of cash flows and related matters; and to ask members to share their experiences with preparing and using this information. The IASB plans to start a research project on the statement of cash flows and related matters later in 2024 and will consider members' responses together with other research when deciding on the scope of the project.

20. Some GPF and CMAC members said the requirements of IAS 7 Statement of Cash Flows mostly work well. Some other members said that some improvements to the requirements are needed. Those members said that improvements are needed in the following areas:
    (a) disaggregation of some cash flow information; and
    (b) additional disclosure about the measure 'free cash flow'.

21. Many CMAC members said some information presented in the statement of cash flows should be more disaggregated than required in IAS 7 in order to improve transparency. The areas highlighted for disaggregation were:
    (a) capital expenditure, specifically disaggregation of growth and maintenance expenditure;
    (b) changes in working capital; and
    (c) information about business segments.

22. Some GPF members also said that presenting disaggregated information about business segments would be useful. Some also agreed that providing disaggregated information on growth and maintenance cash flows would be useful. However, other members said distinguishing between growth and maintenance cash flows would be difficult.

23. An IASB member noted that the enhanced guidance provided on aggregation and disaggregation in IFRS 18 *Presentation and Disclosure of Financial Statements,* which will be effective from 1 January 2027, will apply throughout the financial statements, including in the statement of cash flows.

24. Most GPF and CMAC members said that information about free cash flow is important. Some members said it would be useful to have a standardised definition of this measure. Some other members said it might not be necessary for the IASB to define the term 'free cash flow' if it required entities to disclose transparent information for understanding and computing individual metrics. Some members said it would be useful to have a reconciliation between operating cash flow and free cash flow.

25. GPF and CMAC members generally agreed that the statement of cash flows in accordance with IAS 7 has limited usefulness for financial institutions. Some members said that one of the main reasons could be that financial institutions do not use the statement of cash flows to assess liquidity risk exposure or as a management tool.

26. GPF and CMAC members also said:

(a) reconciling the statement of cash flows to the statement of financial position is sometimes difficult.

(b) some members said cash and cash equivalents were internally defined differently than they are defined in IAS 7 resulting in different starting and ending points and different classifications in the statement of cash flows.

(c) reporting operating cash flows using the indirect method provides useful information. Many members said that it would be costly to implement the direct method.

(d) there is a need for education, in the absence of a basis for conclusions on the main requirements in IAS 7.

Next step

27. The IASB will consider the feedback from GPF and CMAC members after it has moved the project on the statement of cash flows and related matters to its research work plan.

Updating IFRS 19 *Subsidiaries without Public Accountability*: *Disclosures*

28. The purpose of the session was to give GPF and CMAC members an overview of:
    (a) IFRS 19 *Subsidiaries without Public Accountability: Disclosures,* issued in May 2024; and
    (b) the proposals in the forthcoming Exposure Draft *Amendments to IFRS 19* Subsidiaries without Public Accountability: Disclosures (the IFRS 19 catch-up exposure draft).

29. A GPF member said that he welcomed the new Standard because the simplifications in it will reduce the costs of preparing subsidiaries' financial statements.

30. GPF and CMAC members asked some questions, including:
    (a) how IFRS 19 will be updated and maintained; and
    (b) how a subsidiary will apply IFRS 19 if it applies the Standard before IFRS 18.

31. The staff answered the question, explaining that paragraphs BC108 to BC113 of the Basis of Conclusion on IFRS 19 explain how the IASB will maintain the Standard going forward.

32. The staff also clarifying that an entity applying IFRS 19 before IFRS 18 applies the disclosures in Appendix B of the IFRS 19, Appendix B also sets out the disclosures in IFRS 19 an entity is not required to apply.

Next step

33. The Subsidiaries Exposure Draft is expected to be published in July 2024.

Exposure Draft Business Combinations—Disclosures, Goodwill and Impairment

34. The purpose of the session was to explain the IASB's proposals in the Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment* (the Business Combinations Exposure Draft) and seek members' views on the proposals.

35. Staff presented an overview of proposed amendments to IFRS 3 and IAS 36 *Impairment of Assets* in the Business Combinations Exposure Draft.

36. Staff asked GPF and CMAC members for their views on:
    (a) identification of strategic business combinations;
    (b) proposed disclosures and exemptions; and
    (c) restructuring and asset enhancement cash flows.

Identification of strategic business combinations

37. Many GPF and CMAC members said the threshold of 10% of the acquirer's revenue, assets acquired (including goodwill) or operating profit or loss was appropriate to determine whether a business combination is strategic. Other members said the threshold might be too low or too high depending on the entity's size and industry. Some GPF members said that very few, or none of their business combinations over the past 3–5 years would be captured applying these thresholds.
38. Members had some comments on the quantitative thresholds:
    (a) Many CMAC members suggested designing the proposed requirements to ensure that the thresholds capture series of business combinations. For example, requiring an entity to consider the cumulative effect of acquisitions over the reporting period, or apply a retrospective test using the proposed thresholds. However, some members said it might be difficult to apply such requirements.
    (b) some members suggested adding a threshold based on market capitalisation, net assets or the amount of intangible assets (including goodwill) recognised.
    (c) some members said operating profit might not be a suitable threshold because it might be volatile or low.
39. Many members said the qualitative thresholds would be challenging to apply, particularly the criterion for entering a new geographical area of operations. Some members suggested expanding the qualitative thresholds by:
    (a) allowing an entity to apply judgement—for example, a new major line of business or new geographical area of operations could be examples of facts that could make an acquisition strategic; or
    (b) adding additional qualitative thresholds related to key performance indicators, transformational technology or the effect of the business combination on the entity's share price.

Proposed disclosures and exemptions

40. Members generally expressed support for the proposed exemption from some disclosure requirements. However, CMAC members were concerned about potential overuse of the exemption, and GPF members were concerned about the burden of discussions with auditors and regulators to justify using the exemption. Some members were concerned about the proposal to require entities to disclose the reason for applying the exemption.

41. Some members said disclosing information such as key objectives and targets or expected synergies for a business combination could affect negotiations for future transactions and that this possibility was not covered by the proposed exemption.

42. Some members suggested providing more examples and application guidance to help preparers understand when applying the exemption would be appropriate. One

member suggested the IASB could review the circumstances in which the exemption is applied in practice, post-implementation.

Restructuring and asset enhancement cash flows

43. Members generally spoke positively about the changes, saying that the new requirements would reduce cost and complexity of the impairment test and align more closely with internal practices. However, some users were concerned about the potential for increased shielding and management over-optimism.

Next step

44. The IASB will consider comments from CMAC and GPF members when it reviews stakeholder feedback at a future IASB meeting.

Exposure Draft Contracts for Renewable Electricity

45. The purpose of the session was to seek members' views on the IASB's proposals in the Exposure Draft *Contracts for Renewable Electricity* (Renewable Electricity Exposure Draft) published in May 2024.

46. Staff presented an overview of the background to the project, the IASB's objectives for the Renewable Electricity Exposure Draft and the proposed narrow-scope amendments in relation to:

    (a) the criteria that renewable energy contracts are required to meet to be in the scope of the proposals;

    (b) the requirements for the own use exception in IFRS 9 *Financial Instruments*;

    (c) the designation of the hedged item when contracts for renewable electricity are used as hedging instruments in a cash flow hedging relationship; and

    (d) the information to be disclosed about an entity's renewable electricity contracts.

47. CMAC members were asked:

    (a) whether the proposed disclosure requirements provide information that would be useful to their analysis and decision-making and whether they had any alternative suggestions for the IASB to consider; and

    (b) whether, in their view, there is useful information about contracts for renewable electricity that would not be captured by the proposed disclosure requirements, and how such information would be used in their analyses.

48. GPF members were asked:

(a) whether the proposed requirements would remedy the accounting challenges arising from applying the requirements in IFRS 9 and whether they had any alternative suggestions for the IASB to consider; and

(b) whether, in their view, there would be any operational challenges in providing the proposed disclosures.

Scope of the proposed requirements

49. Members generally said that the proposed scope criteria are appropriate to capture the contracts in question and would provide a practical and workable solution to the accounting challenges from applying the requirements in IFRS 9 to these contracts.

50. Several members questioned the use of the term 'renewable' as opposed to 'green' electricity. Some members asked clarifying questions about the term 'volume risk'. Other members had detailed questions about how to apply the proposed requirements to specific scenarios.

Proposed disclosure requirements

51. Some CMAC members said that although the proposed disclosure requirements would provide useful information for analysing future cash flows, entities should be required to provide the disclosures at an appropriate level of aggregation. Some CMAC members also said that, in order to be useful to investors, the requirements to disclose terms and conditions of the contract should be more specific about the items to be disclosed.

52. A few CMAC members also said that a conflict might be perceived between some of the proposed disclosure requirements for forward-looking information and those for backward-looking information. Those members stated that the forward-looking information might be more useful for their analysis.

53. Some GPF members commented on the volume of disclosures required for these renewable electricity contracts compared to other contracts to which the own use exception applies. The staff explained that the starting point for developing the disclosures was that the contracts in question would typically have been accounted for as derivatives and therefore would have been in the scope of the fair value disclosures. Investors said that if the proposals provide relief from fair value accounting for specific types of contracts, entities should be required to disclose information about the effects on these contracts on the entity's current period performance and an indication of the risk embedded in these contracts over their remaining life. The staff explained that the proposed disclosures in the Exposure Draft attempt to provide this information without requiring entities to disclose information that could potentially be commercially sensitive.

54. Several CMAC and GPF members said that information about the average market price for electricity during the period might not achieve the stated disclosure objective because of the lack of a global spot market where the price can be obtained.

Members therefore questioned the usefulness of this information to investors. However, one CMAC member said the proposed disclosure could be useful for investors' analysis. Some CMAC and GPF members were also concerned that such a disclosure might appear to be questioning management's decisions to enter into particular contracts—which members thought was not the objective of that disclosure.

Operational challenges

55. Some GPF members said that sellers and purchasers of renewable electricity contracts might require different transition periods for the proposed amendments because sellers are likely to have many more contracts that would be in the scope of the proposed requirements. These members asked the IASB to take this difference into account when determining the effective date.

Next step

56. The IASB will consider CMAC and GPF members' input with other feedback on the Exposure Draft.