Australian Government
Australian Accounting Standards Board

Minutes

Subject:	Minutes of the AASB User Advisory Committee (UAC) Meeting
Venue:	Sydney – Deloitte office, teleconference with Melbourne AASB office
Date	21 August 2019
Time(s):	2:00-5:00 PM AEST

	Attendees	Participating from
AASB	Kris Peach (AASB chair)	Sydney
	Stephen Taylor	Sydney
	Alison White	Sydney
AASB Staff	Kala Kandiah	Melbourne
	Helena Simkova	Sydney
Guest speaker	Sue Lloyd (IASB vice-chair)	Sydney
UAC	Michael Robinson	Sydney
	Andrew Porter	Sydney
	Kate Griffiths	Sydney
	Martin Lawrence	Sydney
	John Cowling	Sydney
	Lou Capparelli	Sydney
	Toby Langley	Sydney
	Richard Dalidowicz	Sydney
	Myron Ithayaraj	Sydney
	Graeme Burke	Sydney
	Ken Liow	Melbourne
	Richard Fakhry	Melbourne
	Ian Munroe	Melbourne

Welcome	Welcome and introduction of a guest speaker Sue Lloyd (IASB vice chair)
Note the meeting plan for the rest of this year	Next UAC meetings 3rd October 2019
Sue Lloyd presentation on IASB projects	Sue Lloyd provided the members with the following update on the current IASB projects: **1) <u>Primary financial statements</u>** IASB's objective is to make improvements to the primary financial statements with a focus on the statement(s) of financial performance. IASB aims to introduce: • required and defined subtotals in the statement of financial performance to improve comparability • disclosure of Management Performance Measures (MPM) • requirements to improve disaggregation **Sue Lloyd explained the following**: • The proposed defined subtotals • Entities for which investing is the main activity would disclose income/expense from investments as operating activities • MPMs - Subtotals used in public communication (not defined by IFRS) should be disclosed in the notes • There should be a MPM reconciliation to some IFRS number (e.g. a specific revenue stream) and explanation on how the non IFRS number was derived. **Feedback from UAC**: UAC members did not express any concerns regarding the subtotals. Overall, face of the P&L is heading the right direction. Some concerns were expressed regarding the MPMs, e.g. it may be difficult to disclose non IFRS subtotals in the notes if metric is not driven by subtotals (eg same store sales numbers). One member suggested splitting tax and share based payments for outside equity interest. Some members expressed concerns that it will be difficult to compare post implementation information with previous periods. Also it may be difficult to assess whether the number disclosed is complete. **2) <u>Disclosure initiative</u>** IASB is trying to address three main concerns about disclosures in financial statements: not enough relevant information, too much irrelevant information and ineffective communication. **Sue Lloyd explained the objective of the IASB disclosure initiative is to** • replace significant accounting policies with material accounting policies (ED issued in August 19) • reduce disclosures for employee benefits plans other than defined benefit plans (ED of amendments to the disclosure requirements to be published)

	• reduce disclosure relating to fair value measurements (ED of amendments to the disclosure requirements to be published) **Feedback from UAC**: Members explained that users are interested in disclosures relating to FV measurements and therefore would not reduce those. Otherwise disclosure of accounting policies is not a major concern in Australia as many companies have already streamlined their financial statements. **3) <u>Goodwill and impairment</u>** The feedback from post-implementation review of IFRS3 showed that impairments are not timely (usually too late), impairment tests are costly and users need information to assess subsequent performance of acquisitions. *Question to UAC members:* *Should goodwill only be tested for impairment or amortised?* **Feedback from UAC**: 12 of 13 members agreed that GW should be tested for impairment and that amortisation is not helpful . One member stated that the main issue with impairment is that accounting is just catching up with reality. However, impairment disclosures are transparent. Another member suggested that GW should be amortised over time to P&L so it would disappear from the balance sheet.. Members suggested following improvements: • disclose more assumptions used to test GW for impairment, e.g. discount rates, their changes and reason for changes; • link to any class action; • share more information about acquisitions (however admitted that this information might be sensitive); • whether similar information should be disclosed when an entity is acquired compared to when it is built itself.
Management commentary	AASB Chair and Sue Lloyd provided brief background to project i.e. that the project is to address the gaps in financial reporting practice. Management commentary is a narrative report that gives context for the financial statements and additional insight into the company's long-term prospects. The commentary is aimed at primary users of financial reports (ie environmental, social and governance matters which are necessary for investors, lenders or other creditors to make economic decision. In Australian environment the management commentary is included in Operating and Financial Review (OFR). ***Question to UAC members*** *Is the information disclosed in management commentary sufficient and does it meet the needs of users of financial statements?* *What information should be disclosed in the OFR (ie. what should be the guidance)?* **Feedback from UAC members:** There is problem with variable quality of the Operating and Financial Review (OFR) presented in Australia – some fairly good and some poor. In addition, there is often a misunderstanding

	of what the information disclosed should be, e.g. some companies refer to disclosure requirements. Members agreed that the disclosures contained in financial statements are not sufficient and disclosure of additional information is required. It may be challenging to audit the management commentary as currently auditors are only looking at inconsistencies. Some members suggested that disclosing forecasts could be useful however some other members mentioned that forecasts may include confidential information relating to business and disclosing the forecast may therefore be difficult. Members agreed that principle based approach should be retained however suggested following improvements: • presentation of risk should be improved (currently information on risk is buried inside); • the quality of forward-looking statements should be improved; • information about company culture may be useful. Some members mentioned that it may be difficult to decide on the best way to measure the company culture. One member mentioned, that there is a publication on company culture issued by an American professor (post meeting info: James Heskett - Culture Cycle).
Business Combinations under Common Control	AASB staff briefly explained the project. IFRS Standards do not specify how to account for business combinations under common control. As a result, transactions are reported in different ways. Therefore, there is a lack of comparability. Measurement approaches currently explored by IASB are • a current value approach (based on the acquisition method) - considered for transactions that affect non-controlling shareholders of the receiving entity. • a predecessor approach (historical values) – considered for transactions that do not affect non-controlling interests (NCI) including those that affect potential investors (e.g. due to IPO) ***Question to UAC members****:* *What should the measurement basis be for a BCUCC done before an IPO and a BCUCC involving NCI? Should the measurement basis be different?* **Feedback from UAC members:** Members suggested that it is useful to have fair value information of the entity being acquired in a BCUCC involving NCI, so that the NCI know how the combination impacts them. In these cases, measurement based on FV makes sense. Historical information is not widely used in these cases, valuation is often done to forecast cash flow implications. For a BCUCC done in anticipation of an IPO, most considered that the fair value information they needed was provided by the IPO documents at the the time of the IPO. Generally they thought historic information was sufficient to track on-going performance of the combined entities post IPO, although there is also a need for measurement of performance against the actual price paid during the IPO. Overall BCUCC accounting is not a major issue in Australia

Other issues raised by UAC members	**UAC members mentioned following areas which are currently problematic:** • Implementation of IFRS16 – causing issue with classification of cash flows (operating vs financing) • Primary Financial Statements project – new operating profit may also impact cash flows • Reflection of significant transactions in cash flows – such as sale of receivables or supply chain financing • climate change • exploration and extractives • Intellectual Property in general • consistent definition of profit • management commentary AASB will look at providing some education sessions on leases to investors more broadly. AASB will consider the receivables in cashflows issues more to see if this is an enforcement issue or whether there needs to be changes to disclosure requirements in relevant standards. Other issues will be discussed in more detail in future meetings.