

November 2014

New format EFRAG Update

To reflect the changes to EFRAG's organisational arrangements the new format EFRAG Update will be published on a monthly basis to reflect the public technical discussions and decisions at all EFRAG meetings during that month. More information about the new organisational arrangements are available on the [EFRAG website](#).

November 2014 meetings

This edition of EFRAG Update contains summaries of meetings held during November by the:

- EFRAG Board;
- EFRAG Technical Expert Group (EFRAG TEG); and
- EFRAG Consultative Forum of Standard Setters (EFRAG CFSS).

Detailed meeting reports

EFRAG Board

The EFRAG Board met on 21 November. The topics discussed were:

- EFRAG Governance
- EFRAG Workplan
- Approach to Endorsement
- December ASAF meeting
- IASB Project *Insurance Contracts*
- IASB Project *Leases*

The agenda and the agenda papers of the public sessions are available on the [EFRAG website](#). Details of the discussions are summarised below.

EFRAG Governance

The EFRAG Board discussed a number of governance issues and appointed its Audit and Budget, Nominating and Remuneration Committees. It also discussed and approved the 2015 EFRAG TEG composition.

The Board had a first discussion on the 2015 budget. This discussion will be continued and the budget is intended to be finalized in the 17 December meeting for submission to the EFRAG General Assembly for final approval in its January meeting.

EFRAG Workplan

The purpose of the session was for members to discuss the roles and interactions of the EFRAG Board, EFRAG TEG and the EFRAG Staff and resulting changes to the current work process. EFRAG as a whole should operate cohesively and clearly communicate draft and final views to the public. It is essential that EFRAG maintains its current level of public and transparent due process.

Discussion of technical matters by the EFRAG Board and EFRAG TEG takes place in public. The agenda papers for all public sessions of the EFRAG Board are publicly available unless members, on an exceptional basis, decide differently.

The workplan will be updated on a monthly basis and be available as part of the supporting documents for each EFRAG Board meeting. The current workplan will be

expanded to include EFRAG's activities beyond EFRAG's participation in the IASB public consultation process.

Approach to Endorsement

The purpose of the session was to obtain the first views of members on how to assess whether IFRS are conducive to the European public good as stipulated in the IAS Regulation. First and foremost new or amended IFRS are conducive to the European public good if they contribute to a high degree of transparency and comparability, consistently with the primary objective set in the IAS Regulation. EFRAG might in the future assess whether a new or amended IFRS constitutes an improvement on previous standards or contributes to investor protection. It will assess whether benefits outweigh costs. It may consider whether a new or amended IFRS is contrary to a level playing field, whether it induces adverse behaviours of issuers and investors and more generally whether it is likely to hinder financial stability or economic growth. The members emphasised that it would not be possible to provide a comprehensive list of issues and underlined that public good is an overarching concept. They equally emphasised that what should be assessed would depend on the circumstances.

The representative of the European Commission indicated that the Accounting Regulatory Committee would have similar discussions in the future and welcomed the paper and discussion by the EFRAG Board as a first reflection and contribution to the debate. They agreed that the public good criterion would have to be considered for each standard and interpretation individually.

December ASAF meeting: IASB agenda consultation

An initial discussion took place on how to collect and organise input into the upcoming IASB agenda consultation, an item which is also on the agenda of ASAF. Some EFRAG Board members suggested that the IASB risked taking a too narrow approach and should also address bigger issues. Some members also advised to examine the reasons why previous active projects were brought back to the research agenda of the IASB.

IASB Project *Insurance Contracts*

The purpose of the session was to ask if the EFRAG Board wanted to confirm the position previously expressed by EFRAG on the current proposals. The EFRAG position had been broadly supportive of the general insurance model. On participating contracts, EFRAG had rejected the mirroring approach proposed in the 2013 Exposure Draft and expressed high level support for the so-called Alternative Proposal.

Members generally agreed with the position of EFRAG as expressed so far.

Also, members noted that adopting IFRS 9 *Financial Instruments* before the completion of the new Standard for insurance contracts would create serious issues for insurance entities. One Board member noted that deferring the effective date of IFRS 9 for insurance entities should be considered in the IFRS 9 endorsement process.

IASB Project *Leases*

The purpose of the session was to ask if EFRAG Board wanted to confirm the position previously expressed by EFRAG on the main points of the current proposals.

EFRAG had repeatedly and consistently stated that the proposals should provide a clear distinction between leases and service agreements; EFRAG was in favour of recognising leases, once the right population of transactions had been identified. EFRAG had also supported a single accounting model for leases.

Several members noted that the Leases proposals were controversial. Conflicting views were held by constituents, with a significant number opposing the project, and the decision of the IASB and FASB to diverge on the accounting model showed that the proposals did not yet receive a sufficient acceptance and that the two Boards needed to reconsider them before finalising the Standard.

The Acting President of the EFRAG Board noted that the EFRAG Board seemed to share the same concerns expressed by EFRAG in the past, so at this stage there was no need for a new

formal position. Convergence in this project was important and the IASB should be encouraged to further consider the FASB model. EFRAG would pass this message to the IASB at the next ASAF meeting.

The EFRAG Board will be consulted again on the project in a future meeting.

EFRAG Technical Expert Group

EFRAG TEG met on 6 and 7 November 2014 and discussed:

- IFRS 9 *Financial Instruments*
- IASB Publication *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*
- IASB Project A *Revision of the Conceptual Framework for Financial Reporting*
- IASB Project *Insurance Contracts*
- IASB Project *Leases*
- Proposed amendments to IAS 28 *Elimination of gains or losses arising from transactions between an entity and its associate or joint venture*

Details of the discussions are summarised below.

IFRS 9 *Financial Instruments*

EFRAG TEG discussed EFRAG staff analyses of changes made to IFRS 9 following the 2013 field-tests on classification and measurement and impairment. The analyses looked at whether the concerns expressed during the field-tests had been addressed in the final standard. Members requested that the EFRAG staff perform additional work to assess whether this analysis of the final standard was shared by constituents.

IASB Publication *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*

EFRAG TEG discussed the amendments with respect to the technical criteria for endorsement without reaching a conclusion at this stage

IASB Project A *Revision of the Conceptual Framework for Financial Reporting*

EFRAG TEG monitored progress made by the IASB in its most recent deliberations and provided preliminary assessment on a number of the IASB's tentative decisions related to the Conceptual Framework.

In addition members considered how to progress proactive work on conceptual framework level guidance on how to determine the unit of account.

IASB Project *Insurance Contracts*

EFRAG TEG received an update on the IASB's October re-deliberations relating to transition requirements focussing on non-participating contracts and held an educational session on the comparison of the effective yield discount rate with the book yield discount rate in measuring the interest expense in profit or loss for participating contracts.

IASB Project *Leases*

EFRAG TEG discussed the IASB's re-deliberations on the definition of a lease. Members did not believe that the changes appropriately addressed concerns previously expressed.

Proposed amendments to IAS 28 *Elimination of gains or losses arising from transactions between an entity and its associate or joint venture*

EFRAG TEG received an update on the upcoming amendments and discussed some of the requirements expected to be contained in the forthcoming Exposure Draft.

Some members reported that current practices in their jurisdictions were to apply the logic of paragraphs 38 and 39 of IAS 28 and limit the elimination of such gains to the carrying amount of

the equity-accounted investment when the investor had no constructive or legal obligation to make up for the losses of the investee. Therefore the requirements in the forthcoming Exposure Draft would imply a significant change in practice. The EFRAG staff was requested to provide an implementation example for discussion at a future TEG meeting.

EFRAG Consultative Forum of Standard Setters

EFRAG CFSS met on 25 November to prepare for the December ASAF meeting and also to discuss:

- EFRAG/DASB/ICAC/OIC Discussion Paper *Separate Financial Statements*
- IASB Exposure Draft *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*

Details of the discussions are summarised below.

Preparation for the December ASAF meeting

In preparation for the ASAF meeting EFRAG CFSS discussed:

- IASB Discussion Paper *Reporting the Financial Effects of Rate Regulation*
- IASB Project *Disclosure Initiative*
- IASB Research Project *Emissions Trading Schemes*
- IASB Research Project *Equity Method of Accounting*

IASB Discussion Paper *Reporting the Financial Effects of Rate Regulation*

EFRAG CFSS was provided with a summary of EFRAG's preliminary views included in its draft comment letter and a summary of feedback from on-going user outreach.

Members welcomed the IASB's decision to focus the debate on a narrow type of rate regulation, which the Discussion Paper describes as 'defined rate regulation'. There was broad agreement that the existence of enforceable rights and obligations that stem from the rate regulation framework is an important element for distinguishing the types of rate regulation that require recognition in the financial statements and that this was an area that would need to be explored further in moving forward with the project. They questioned whether developing a separate standard was necessary or whether interpretation of IFRS 15 *Revenue from Contracts with Customers* could suffice.

IASB Project *Disclosure Initiative*

EFRAG CFSS discussed various aspects of the project including two soon-to-be-published narrow-scope amendments to IAS 1 *Presentation of Financial Statements* and to IAS 7 *Statement of Cash Flows*.

Some members expressed concerns regarding the publication of narrow focus amendments that change, on a piecemeal basis, existing Standards, before the research into principles of disclosure and materiality is finalised.

Members were also provided with a presentation of the research that the Organismo Italiano di Contabilita will be conducting, as part of the Disclosure Initiative project, on IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and were informed about an issues paper prepared by the Dutch Accounting Standards Board about practical difficulties in applying local GAAP requirements on correction of errors.

IASB Research Project *Emissions Trading Schemes*

EFRAG CFSS discussed potential scopes of the IASB Research Project and current accounting practices in Europe. In advance of the meeting, National Standard Setters in Europe had responded to a questionnaire on current guidance and practices. The responses identified that there was divergent practice across Europe.

Despite the acknowledgement of divergent practices, members were hesitant in expressing support for the Research Project. They acknowledged that the project would raise conceptual

issues in such a manner that the resulting standard might bring complexity that would be best avoided. They indicated that the outcome of such a standard setting effort should be such that no day one profit should be recognised and the cost of pollution should be spread in a reasonable manner, so as to provide users with the information they need. Recognition and measurement of assets and liabilities should lead to such an outcome and the overall requirements should remain simple. The scope should be set such that the principles were applicable to all economically similar situations, rather than being limited to the cap and trade and baseline and credit schemes already identified.

[IASB Research Project *Equity Method of Accounting*](#)

EFRAG CFSS discussed a Research Paper prepared by the Korea Accounting Standards Board and an EFRAG staff response to it. Views were expressed in support of the equity method being either strictly a measurement basis or continue to require partial eliminations of transactions between investor and investee. Discriminating factors could be whether the investee is part of the core activities of the investor or whether there is evidence that transactions are concluded at arm's length. Members also reaffirmed their opposition to a fundamental review of the equity method.

[IASB Exposure Draft *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*](#)

EFRAG CFSS discussed EFRAG's draft comment letter.

Although members were informed of the unanimous view of the EFRAG User Panel that a Level 1 fair value should have precedence, members agreed with EFRAG's preliminary view that the IASB proposals to determine the fair value measurement of an investment in a subsidiary, joint venture or associate, quoted in active market as the product of the quoted price times the number of instruments ('P x Q'), will not always result in relevant information. Members argued that the measurement should follow the unit of account and, accordingly, control premiums and discounts should be reflected in the fair value measurement of the investment as a whole. Any difference between that measurement and 'P x Q' should be disclosed and explained in the notes to the financial statements.

Therefore, before finalising the proposed amendments, members believed that the IASB should analyse current practices in measuring fair value of this type of quoted investments including premiums and discounts and reassess where to strike the balance between relevance and reliability.

[EFRAG/DASB/ICAC/OIC Discussion Paper *Separate Financial Statements*](#)

EFRAG CFSS discussed the application of IFRS in separate financial statements in Europe and the technical financial reporting issues that arise. Members highlighted that, in some jurisdictions, separate financial statements serve a critical role in determining compliance with legal requirements (e.g. they were used as a basis for the calculation of dividends, legal disputes or the determination of income taxes). It was also noted that separate financial statements would often complete the information provided in the consolidated financial statements. Finally, members discussed the pros and cons of having symmetry in the accounting for transactions or events in the separate and consolidated financial statements. Some members highlighted that there was a need for the IASB to consider, as part of its research activities, the role of separate financial statements and the challenges that arise in practice to those who prepare and use separate financial statements.