

March 2012

**EFRAG - IASB Joint Meeting
held on 9 March 2012****Summary of main messages expressed by the EFRAG delegation**

EFRAG and IASB held a joint public meeting on 9 March 2012. The EFRAG delegation was composed of the EFRAG Chairman (Françoise Flores), the vice-Chairman of EFRAG TEG (Mike Ashley), the Chairmen of ASCG (Liesel Knorr) and of the ASB (Roger Marshall) and the vice-Chairman of the OIC (Alberto Giussani), accompanied by their technical directors or a member of their Boards. The ANC Technical Director was also present in the meeting.

IASB was represented by Hans Hoogervorst, IASB Chairman, Stephen Cooper, Paul Pacter and Wei-Guo Zhang, IASB members, Sue Lloyd, Alan Teixeira and Peter Clark, Senior Directors and Director at IASB.

Overall comments

EFRAG welcomes the more measured pace at which the IASB has worked over the past six months. In addition, we welcome the close consideration the IASB has given to those issues in the four active projects that have proven contentious in the first phases of consultation.

Complexity of new IFRS

Experience drawn from our field tests, comments made by participants in outreach events or in working groups led by national standard setters in their jurisdiction, and our own work analysing exposure drafts and final IFRS, indicate that new IFRS, either published (IFRS 10, 11, 13) or under preparation (the Revenue Recognition ED), are considered complex and difficult to understand. EFRAG recommends the IASB performs a review of the difficulties encountered in practice and seeks ways of improving its articulation of the basic principles and concepts and the style and structure of the standards.

Revenue Recognition

EFRAG's preliminary analysis acknowledges the significant improvements the IASB has made to its revenue recognition model, which reflect the input received from EFRAG and European constituents. However, some concerns remain. EFRAG confirms its view that the onerous contract test should be conducted at the contract level. Additional issues that the IASB should address in the final deliberations include: advances should not be systematically offset against contract assets; it

should be possible to allocate contingent amounts to more than one performance obligation. EFRAG also disagrees with the requirement for detailed revenue recognition disclosures in the interim financial statements.

EFRAG is currently considering the findings from the industry-specific field-tests that have been completed. One of those findings is that the criteria reflecting a continuous transfer of control may, in some cases, change the current revenue recognition pattern in long-term contracts. Assessment is needed, whether those changes would result in more useful information to users. Estimates of stand-alone selling prices remain problematic for the software industry and a practical solution needs to be found. Also the time value of money component should be identified taking into account the cash in- and out-flows, independently from the revenue pattern. Finally an alternative to full retrospective application should be considered for long term contracts for which the cost of full restatement would probably exceed the benefits.

Leases

In EFRAG's view, the IASB cannot gain acceptance of a standard that calls for the recognition of all leases in all circumstances. If the IASB pursues this project, the current distinction between financing and operating leases should be retained, however improvements should be made to the existing distinction in IAS 17 to require recognition of liabilities arising from transactions that are in substance financing transactions.

Financial instruments: Classification and Measurement

EFRAG has welcomed the decision of the IASB to consider how IFRS 9 classification and measurement requirements could be improved and to give convergence with US GAAP another chance. EFRAG also welcomes the definition of the targeted improvements and the willingness not to delay the finalisation of IFRS 9 unduly.

That said, it is to EFRAG of the utmost importance that IFRS 9 principles-based approach, based on the characteristics of the instrument and on the business model, is not lost in this effort, but rather strengthened. This, in EFRAG's view, would inter alia require that:

- Bifurcation of hybrid financial assets and liabilities be considered on a basis consistent with the principle based approach to IFRS 9 rather than on the basis of IAS 39 set of rules; EFRAG has already suggested a way to approach this;
- If a third business model needs to be identified distinctly from the lending and trading business models, it should be reflected consistently in accounting requirements for all securities without any arbitrary distinction between debt or equity securities.

Insurance contracts

EFRAG is pleased that its recommendation that IFRS 9 be re-examined in the light of the development of IFRS 4 is being followed. That said, EFRAG would like to

reiterate that providing the IFRS financial reporting community with the long awaited insurance contract standard should not be delayed unduly.

Including a Review Draft step in the IASB due process and performing ultimate field tests on that basis: first application, the General Hedge Accounting Model

EFRAG wishes to re-iterate that the issuance of Review Drafts (i.e. draft final standards) to serve as a basis for ultimate field tests prior to publication of final requirements should in EFRAG's view be included as a due process step. EFRAG acknowledges that this is a fact-finding exercise, meant to identify any remaining potential implementation difficulty, and not to open another round of consultation that an Exposure Draft would.

EFRAG and National Standard Setters in Europe are developing a fully integrated effort to field test the general hedge accounting model on the basis of the Review Draft about to be issued. We hope for a close involvement of the IASB so that this field test exercise benefits to IASB and EFRAG and National Standard Setters equally.

EFRAG recommends that the IASB staff reports in a public meeting to the IASB any findings arising from this ultimate public fatal flaw review so that the IASB is in a position to give an explicit green light to publication.

Aiming at greater consistency in the application of IFRS

EFRAG welcomes the intention of the IASB to integrate regional and national accounting standard bodies, regulators and audit firms more formally in the standard setting process, as Hans Hoogervorst announced in his speech in Mexico on 7 March. EFRAG and National Standard Setters in Europe are ready to play their role in this process.

EFRAG believes that national and regional accounting standard bodies should also participate, together with regulators and auditors, in IASB's efforts to support greater consistency in the application of IFRS. A particular focus on greater auditability and enforceability could result in a decreased level of relevance.

EFRAG understands that, in order to support increased consistency in the application of IFRS, the IFRS Interpretation Committee is expected to contribute more to the IASB's overall standard setting efforts to maintain existing IFRS. EFRAG believes that the issuance of interpretations and the preparation of annual improvements are the appropriate responses when standards are written in such a way that they may be applied differently from the way they were intended or result in diversity in practice. Therefore, rejection notices issued by the IFRS Interpretation Committee should avoid forming clarifications or quasi interpretations of IFRS. Authoritative literature is needed to remove Implicit options included in IFRS. Room for the exercise of proper judgement should be maintained.

EFRAG is of the view that only the IASB and the IFRS Interpretation Committee have authority to issue mandatory IFRS requirements or guidance. ESMA has in its discussion paper on materiality reflected that different interpretations exist in practice of how to apply materiality. Our research work on the Disclosure Framework also indicates that limiting disclosures to what is relevant to users requires an appropriate application of the materiality concept to disclosures. Therefore, if evidence of the need for supplementary or clarified guidance on materiality is confirmed, the IASB should consider adding to, or clarifying, the relevant IFRS requirements.

Proactive activities

EFRAG is pleased that the IASB will implement its recommendation that no active project be launched without having first gathered evidence of what needs fixing. We therefore welcome the IASB decision not to launch a project without going through a research phase to clearly define the scope and objectives of the project.

EFRAG notes that two of its own active projects, “Business Combinations under Common Control” and “Framework to the notes to financial statements” have ranked high in the order of priority indicated by respondents to the IASB agenda consultation. EFRAG is considering how to best integrate its efforts in the incoming projects to be launched by the IASB.