

February 2009

Summary of EFRAG meetings held in February 2009

On Friday 6 February 2009 EFRAG held a meeting by public conference call and discussed:

- the ED of proposed amendments to IFRIC 9 and IFRIC 16.

On Friday 20 February 2009 EFRAG held a meeting by public conference call and discussed:

- ED 10 *Consolidated Financial Statements*.

From Wednesday 25 to Friday 27 February 2009 EFRAG held its monthly meeting and discussed:

- the ED of proposed amendments to IFRIC 9 and IFRIC 16
- ED 10 *Consolidated Financial Statements*
- the financial crisis
- the IASB Discussion Paper on *Revenue Recognition in Contracts with a Customer*
- IFRIC 17 *Distributions of Non-cash Assets to Owners*
- IFRIC 18 *Transfers of Assets from Customers*
- the IASB project on Income Tax
- Improvements to IFRSs (the 2009 Annual improvements Project)
- the PAAinE project on Consolidations
- the agenda for a meeting with the IASB to discuss its convergence projects

ED of proposed amendments to IFRIC 9 and IFRIC 16

During its conference call on 6 February 2009 EFRAG approved for issue its draft comment letter on the Exposure Draft of proposed amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*. The draft letter was then issued for comment and, during its February meeting, EFRAG considered the comments received in response to the draft and finalised its comment letter. EFRAG supported the amendments proposed, whilst at the same time:

- suggesting that a further amendment should be made to IFRIC 9 to ensure that contracts acquired as part of an acquisition of an associate are not brought within IFRIC 9's scope unintentionally.
- suggesting that the proposal that the effective date for the IFRIC 16 amendment should be backdated to annual periods starting on 1 October 2008 needs to be clarified so that their implications for the contemporary designation requirements in existing IAS 39 *Financial Instruments: Recognition and Measurement* can be understood.

EFRAG's final letter has now been issued and is available from EFRAG's website.

During the public conference call on 20 February and subsequent monthly meeting, EFRAG finalised and approved its draft comment letter on ED 10 *Consolidated Financial Statements*. In the draft letter EFRAG supported the objectives of the ED but expressed concern about:

- the consolidation principle proposed, because of concerns about its implications for certain structured entities
- the clarity, consistency and appropriateness of the ED's material on the control model, the treatment of options and convertible instruments, agency relationships, and reporting entities with dual roles.

EFRAG also broadly agreed with the general direction of the new disclosures proposed, but expressed concern about the extent of the disclosures proposed and the clarity of some of the proposed disclosure requirements.

EFRAG concluded by arguing that the project should be divided in two, so that the issues in urgent need of address (for example, disclosures about unconsolidated structured entities) could be dealt with as a matter of highest priority and much-needed additional time could be spent on the other issues.

The draft comment letter was subsequently issued on EFRAG's website.

Financial Crisis

There have been various suggestions as to the changes that need to be made to existing financial reporting standards in light of experience during the financial crisis. One of the issues that has most concerned commentators is the possibly pro-cyclical effect of certain accounting practices; including the current (incurred loss) loan loss provisioning model. Various alternative loan loss provisioning models—including the so-called dynamic loan loss provisioning model—have been much discussed, and during its February meeting EFRAG discussed the dynamic provisioning model. It noted that there is no general agreement as to what the term means, and that most of the debate is focusing on a 'through the cycle' version that would require banks to build up reserves against future losses in good times and draw on those reserves in bad times. EFRAG also noted that a key issue being debated is whether—and if so how—'through the cycle' provisions should be incorporated in general purpose financial reports such as the annual financial statements—or whether they should be incorporated just in the prudential reporting. EFRAG discussed the proposed alternatives and agreed to monitor developments closely.

IASB's Discussion Paper on Revenue Recognition in Contracts with a Customer

In December 2008, the IASB issued a discussion paper on revenue recognition in contracts with a customer. The IASB's intention is that the discussion paper should, by the end of 2011 lead to a new standard on revenue recognition that would be applied to all types of transactions. EFRAG is developing its draft comment letter on the discussion paper and, with that objective in mind, discussed at its February meeting:

- what revenue principle EFRAG would prefer;
- how to account for return rights;
- how the revenue recognition criteria of the discussion paper fit with the IASB's other work;
- whether some contracts should be measured using another model than the customer consideration model;
- how pre-contract costs should be accounted for;
- whether or not the proposed model would help entities to consistently identify the deliverables in (or components of) a contract;
- how sales incentives should be accounted for;
- what stand-alone selling prices were and how allocation of the total consideration based on these would affect the pattern of revenue recognition related to certain service contracts;
- how a contract should be defined;
- how to account for onerous contracts.

EFRAG's discussions will continue in March and the current timetable envisages the draft comment letter being issued on EFRAG's website soon after Easter.

IFRIC 17 Distributions of Non-cash Assets to Owners

At an earlier meeting, EFRAG had discussed IFRIC 17 Distributions of Non-cash Assets to Owners and tentatively concluded that it should recommend endorsement. Staff had subsequently prepared a draft endorsement advice letter and a draft effects study report on IFRIC 17 for EFRAG to discuss at its February meeting. The majority of EFRAG members supported recommending endorsement of IFRIC 17, although some members dissented from that recommendation. EFRAG's draft endorsement advice and draft effects study report have subsequently been issued for comment on EFRAG's website, and comments are invited until 1 May 2009.

IFRIC 18 Transfers of Assets from Customers

EFRAG members discussed the type of endorsement advice they were minded to give on IFRIC 18 *Transfers of Assets from Customers*, an interpretation that provides guidance on the accounting treatment when items of property, plant and equipment are received by entities from their customers. Overall, EFRAG members indicated that they had no major concerns with the accounting treatment required by IFRIC 18. EFRAG staff was asked to develop a draft positive endorsement advice letter which EFRAG would discuss at its meeting in March 2009.

IASB project on Income Tax

Since the beginning of the year, EFRAG has been discussing the proposals expected to be in the forthcoming ED on Income Taxes in order to provide staff with input for EFRAG's draft comment letter. Those discussions continued at the February meeting.

At its January meeting, EFRAG had expressed some concerns with the proposals. During the February meeting EFRAG members raised a number of further concerns, in particular regarding the conceptual basis underpinning some of the proposals. Another concern was that some aspects of the proposals seemed to be based on inconsistent guidance relating to the way deferred tax liabilities and assets were recognised and measured and, specifically, the way 'management intent' was applied when determining deferred tax balances. Yet another concern was the rules-based nature of some of the proposals, which in some cases seemed difficult to understand and likely to be costly to adopt. EFRAG will continue its discussion once the IASB has published an ED.

Improvements to IFRSs (the 2009 Annual Improvements project)

The IASB has started work on the proposed amendments to be included in its third exposure draft of proposed annual improvements and EFRAG discussed two of the proposals likely to be in the eventual ED at its February meeting. The first proposal concerns a possible amendment to IFRIC 13 *Customer Loyalty Programmes* to clarify how the fair value of award credits is to be estimated. The second proposal involves amendments to IFRS to change the treatment of certain investment properties undergoing a development with a view to sale. EFRAG members broadly supported the first proposal, but had concerns about the second. It is expected that EFRAG will invite constituents to comment on EFRAG's draft assessment by issuing a draft comment letter when the IASB makes its proposed amendments publicly available, which is expected to be in early April.

PAAinE project on Consolidated Financial Statements

In order to provide additional input to the IASB's consultations on the proposals in ED 10 *Consolidated Financial Statements*, it was decided in late 2008 that the proposals should be field tested as part of the PAAinE initiative. At its February meeting EFRAG received a presentation on the results of that field test. EFRAG agreed that the results, though interesting and in many ways pointing in the same direction as some of the comments being made in EFRAG's draft comment letter, were not sufficiently robust to stand alone in published form.

IASB Convergence Projects

Every six months, an EFRAG delegation (comprising representatives of EFRAG and of the standard-setters of France, Germany and the UK) meet with representatives of the IASB to discuss the IASB/FASB convergence projects. The next meeting takes place on 16 March and, during its February meeting, EFRAG discussed what the agenda for the meeting might be.



