

July-September 2014

## Summary of EFRAG Technical Expert Group (TEG) meetings

On 24 July 2014 EFRAG TEG held a conference call. The following topics were discussed:

- EFRAG/ANC/FRC Research Paper *The Role of the Business Model in Financial Statements*
- IASB Discussion Paper *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging*
- IASB Publication *Clarification of Acceptable Method of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)*
- IASB Publication *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)*

From 3-5 September 2014 EFRAG TEG held its monthly meeting. The following topics were discussed:

- EFRAG Short Discussion Series Paper *The Equity Method: a measurement basis or one-line consolidation?*
- IFRS 9 *Financial Instruments*
- IFRS 11 *Joint Arrangements*
- IFRS 15 *Revenue from Contracts with Customers*
- IASB Discussion Paper *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging*
- IASB Project *A Review of the Conceptual Framework for Financial Reporting*
- IASB Project *Insurance Contracts*
- IASB Project *Leases*
- IASB Project *Rate-regulated Activities*
- IASB Project *Clarifications of Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2)*
- IASB Publication *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)*
- IASB Publication *Equity Method in Separate Financial Statements (Amendments to IAS 27)*
- IASB Exposure Draft *Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12)*

### Highlights

#### **Endorsement advice**

EFRAG TEG approved an endorsement advice relating to the IASB Publication *Clarification of Acceptable Method of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)* for the use of the amendments in the European Union and European Economic Area. The endorsement advice was published on 24 July 2014. For more details please see page 4.

EFRAG TEG approved an endorsement advice relating to the IASB Publication *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)* for the use of the amendments in the European Union and European Economic Area. The endorsement advice was published on 24 July 2014. For more details please see page 4.

### **Proactive activities**

EFRAG TEG approved a feedback statement on constituent comments in response to the EFRAG/ANC/FRC Research Paper *The Role of the Business Model in Financial Statements*. The feedback statement was published on 4 September 2014. For more details please see page 2.

EFRAG TEG approved a feedback statement on constituent comments in response to the EFRAG Short Discussion Series Paper *The Equity Method: a measurement basis or one-line consolidation?*. The feedback statement was published on 10 September 2014. For more details please see page 2.

### **Draft comment letters**

EFRAG TEG approved a draft comment letter in response to the IASB Exposure Draft *Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12)*. The draft comment letter will be published shortly. For more details please see page 4.

## **EFRAG/ANC/FRC Research Paper *The Role of the Business Model in Financial Statements***

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At its conference call on 24 July, 2014 EFRAG TEG approved a feedback statement summarising the comments received in response to the Research Paper. Having received approval from the partners the feedback statement was published on 4 September 2014.

## **EFRAG Short Discussion Series Paper *The Equity Method: a measurement basis or one-line consolidation?***

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At its September 2014 meeting, EFRAG TEG approved a feedback statement summarising comments received in response to the Short Discussion Series Paper.

## **IFRS 9 *Financial Instruments***

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At its September 2014 meeting, EFRAG TEG considered an analysis of the compatibility of IFRS 9 as published in July 2014 with positions previously stated in EFRAG comment letters and interaction with the carved-out sections of IAS 39 *Financial Instruments: Recognition and Measurement*. No decisions were taken at the meeting.

## **IFRS 11 *Joint Arrangements***

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At its September 2014 meeting, EFRAG TEG received a summary of results of outreach with European National Standard Setters on IFRS 11 implementation issues in respect of assessment of 'other facts and circumstances'. No decisions were taken at the meeting.

## **IFRS 15 *Revenue from Contracts with Customers***

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At its September 2014 meeting, EFRAG TEG discussed an initial version of a draft endorsement advice. No decisions were taken at the meeting.

## **IASB Discussion Paper *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging***

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At its conference call on 24 July, 2014 EFRAG TEG discussed alternatives to the Portfolio Revaluation Approach that were to be discussed during outreach activities over the summer.

At its September 2014 meeting, EFRAG TEG received a summary of messages on the draft comment letter received to date during outreach with constituents.

## **IASB Project *A Review of the Conceptual Framework for Financial Reporting***

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At its September 2014 meeting, EFRAG TEG received an update on the IASB's tentative decisions in relation to the forthcoming Exposure Draft. No decisions were taken at the meeting.

## **IASB Project *Insurance Contracts***

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At its September 2014 meeting, EFRAG TEG received an update on the IASB's July re-deliberations relating to the proposals in the 2013 Exposure Draft. EFRAG TEG also discussed participating contracts in preparation for the meeting of the Accounting Standards Advisory Forum to be held on 26 September 2014.

EFRAG TEG reiterated its position on participating contracts that was formed for the June 2014 Accounting Standards Advisory Forum meeting relating to the shareholder's share of underlying items, treatment of options and guarantees and the release pattern of the contractual service margin. In addition, EFRAG TEG decided that the objective of reducing accounting mismatches should underlie the approach used to determine the items to be recognised in Other Comprehensive Income. EFRAG TEG tentatively considered that the book yield approach would meet that objective.

## **IASB Project *Leases***

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At its September 2014 meeting, EFRAG TEG held an educational session on the most recent deliberations of the IASB at their June and July meeting and received an update on the preliminary results of EFRAG's additional public consultation.

When discussing the IASB's recent deliberations, EFRAG TEG members explored the presentation of lease liabilities on the balance sheet and whether they should be explicitly identified as financial liabilities.

EFRAG TEG was informed that approximately half of the preparers responding to the public consultation stated that they oppose the project, and they would rather maintain IAS 17 *Leases*. Of those preparers that expressed a preference, the majority preferred the IASB model over the FASB model.

The public consultation also asked respondents to identify transactions that, in their view, should not qualify as leases and provide a rationale. The analysis of the replies is not yet complete, but there were some common themes around the notion of 'supplier's ability to replace', 'control of the right to use' and the requirement to separate lease components in an arrangement that includes assets and services.

## **IASB Project *Rate-regulated Activities***

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At its September 2014 meeting, EFRAG TEG was provided with a summary of an exercise on the practical application of 'defined rate regulation' which was sent to the preparer members of the EFRAG Rate-regulated Activities Working Group. EFRAG TEG also received feedback on user outreach performed during the summer. No decisions were taken at the meeting. Thanks to the input received from its working group, EFRAG TEG is now well equipped to prepare a draft comment letter on the IASB Discussion Paper.

## ***IASB Project Clarifications of Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2)***

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At the September 2014 EFRAG TEG meeting, EFRAG staff provided an update on three narrow-scope amendments to IFRS 2 approved by the IASB at its April and June 2014 meetings. The amendments address: how vesting conditions affect the measurement of a cash-settled award; how a withholding tax requirement affects the classification of an equity-settled award; how to classify an award that could be either settled in equity or cash, based on a future events; and how an entity should account for the replacement of a cash-settled award with an equity-settled award.

EFRAG TEG reiterated its concern that the continuous introduction of piecemeal changes in IFRS 2 to solve narrow issues create additional complexity and does not clarify the basic requirements.

## ***IASB Publication Clarification of Acceptable Method of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)***

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At its conference call on 24 July 2014, EFRAG TEG approved an endorsement advice relating to the use of the amendments in the European Union and European Economic Area.

EFRAG's assessment is that the amendments satisfy the technical criteria for endorsement. EFRAG submitted its endorsement advice letter and effects study report to the European Commission on 24 July 2014.

## ***IASB Publication Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)***

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At its conference call on 24 July 2014, EFRAG TEG approved an endorsement advice relating to the use of the amendments in the European Union and European Economic Area.

EFRAG's assessment is that the amendments satisfy the technical criteria for endorsement. EFRAG submitted its endorsement advice letter and effects study report to the European Commission on 24 July 2014.

## ***IASB Publication Equity Method in Separate Financial Statements (Amendments to IAS 27)***

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At its September 2014 meeting, EFRAG TEG discussed an initial draft endorsement advice and effects study report on the amendments. No decisions were made at the meeting.

## ***IASB Exposure Draft Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12)***

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At its September 2014 meeting, EFRAG TEG approved a draft comment letter in response to the Exposure Draft.

In its draft comment letter, EFRAG agrees with most of the proposals in the ED. However, EFRAG has some concerns and wording suggestions.