

March / April 2014

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

EFRAG TEG held conference calls on 11 and 21 March 2014 to discuss:

- Annual Improvements to IFRS 2010-2012 and 2011-2013 Cycles
- ESMA Consultation Paper *Guidelines on Alternative Performance Measures*
- IASB Exposure Draft *Equity Method: Share of Other Net Asset Changes - Proposed amendments to IAS 28*

From 2-3 April 2014 EFRAG TEG held its monthly meeting. The following topics were discussed:

- *Revenue Recognition*
- IASB Project *Leases*
- IASB Exposure Draft *IFRS for SMEs (Proposed amendments)*
- IASB Project *Accounting for Macro Hedging*
- IASB Project *Insurance Contracts*
- IFRS Interpretations Committee Issues – IAS 12 *Income Taxes*
- IFRS 2 *Share-based Payment (Proposed narrow-scope amendments)*
- IASB Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*
- Bulletins on the IASB's *Conceptual Framework* Project
- EFRAG Working Groups
- EFRAG Short Discussion Series – Improvements to IAS 37
- IASB Exposure Draft *Disclosure Initiative – Proposed amendments to IAS 1*
- EFRAG/ASBJ/OIC Joint Issues Paper *Goodwill: Reintroducing the impairment and amortisation approach?*
- IFRS 3 *Business Combinations* – Subsequent accounting for acquisition step-ups

## Highlights

### **Comment letters**

On 28 March 2014, EFRAG published a letter it sent to the IASB about the IASB Exposure Draft *Equity Method: Share of Other Net Asset Changes - Proposed amendments to IAS 28*. For more details, please see page 2.

EFRAG approved a draft comment letter on the ESMA Consultation Paper *Guidelines on Alternative Performance Measures*. For more details please see page 2.

EFRAG approved a draft comment letter on the IASB Exposure Draft *Disclosure Initiative – Proposed amendments to IAS 1*. For more details please see page 4.

### **Endorsement advices**

EFRAG published its endorsement advices on the *Annual Improvements to IFRS 2010-2012 and 2011-2013 Cycles* on 12 March 2014. For more details please see page 2.

### **Feedback Statements**

EFRAG published its feedback statement on the IASB Exposure Draft *IFRS for SMEs (Proposed amendments)* on 3 April 2014. For more details please see page 3.

*EFRAG Update* is published for the convenience of EFRAG's constituents. All conclusions reported are tentative and may be changed or modified at future meetings.

## ***Annual Improvements to IFRS 2010-2012 and 2011-2013 Cycles***

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On a conference call on 11 March 2014, EFRAG approved two endorsement advices relating to the endorsement of the Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle (the Amendments) for use 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 12 March 2014.

## ***ESMA Consultation Paper Guidelines on Alternative Performance Measures***

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On a conference call on 21 March 2014, EFRAG TEG approved a draft comment letter on the European Securities and Markets Authority (ESMA) Consultation Paper *Guidelines on Alternative Performance Measures* ('APMs').

In its draft comment letter, EFRAG acknowledges that APMs could provide useful information when properly used and presented; therefore EFRAG supports the idea that APMs should be clearly defined and explained by preparers, and presented consistently over time.

However, EFRAG believes that the proposed Guidelines do not articulate clearly enough the underlying principles that determined the scope of the requirements nor the types of disclosures that were asked for. EFRAG thinks that the requirements should be targeted more narrowly so as to avoid clutter and boilerplate language in financial reporting. EFRAG further observes that ESMA has not provided clear evidence on why the existing CESR Recommendation is no longer considered to provide adequate guidance and is in need of replacement.

## ***IASB Exposure Draft Equity Method: Share of Other Net Asset Changes - Proposed amendments to IAS 28***

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On a conference call on 21 March 2014, EFRAG TEG agreed to send a letter to the IASB expressing concern prior to the publication of amendments to IAS 28 *Investments in Associates and Joint Ventures* and identifying an alternative accounting approach to the IASB's proposal

The alternative approach was developed to address problems identified in the amendments, including that they conflict with a fundamental principle of IAS 1 *Presentation of Financial Statements*, would result in economically similar transactions (direct and indirect acquisitions and disposals) being accounted for differently and allow deferral of losses. The IASB's proposals would also lead to changes to prevailing practice in Europe.

## ***Revenue Recognition***

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At its April 2014 meeting, EFRAG TEG discussed proposed activities, to be undertaken when EFRAG is asked to provide an endorsement advice to the EU on the forthcoming standard on revenue recognition. No decisions were taken.

## ***IASB Project Leases***

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At the April 2014 EFRAG TEG meeting, EFRAG staff presented a draft report from the survey conducted with preparers in January and February 2014 on possible simplifications to the proposals in the second IASB Exposure Draft *Leases*. The main finding was that simplification was needed but more work is needed to amend the current proposals to achieve the appropriate cost-benefit balance. In addition to possible simplifications, respondents continue to support – as EFRAG has recommended all along - a better definition of the scope of the project.

EFRAG TEG agreed to release the report but suggested including more contextual background to the survey – notably why and how the survey was carried out without any public call to participants – and better articulating the rationale behind views expressed by respondents.

### **IASB Exposure Draft *IFRS for SMEs (Proposed amendments)***

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At its April 2014 meeting, EFRAG approved a feedback statement summarising how constituent's input was considered in the finalisation of EFRAG's comment letter on the IASB's ED/2013/9 *Proposed Amendments to the IFRS for SMEs*.

### **IASB Project *Accounting for Macro Hedging***

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During the April 2014 EFRAG TEG meeting, EFRAG TEG members discussed a number of key aspects of economic macro hedging and whether these existing practices could be acceptable under a future macro hedge accounting standard. No decisions were taken during the session.

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

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At its April 2014 meeting, EFRAG TEG members received an update on two topics that were discussed by the IASB in March 2014: unlocking the contractual service margin; and the use of other comprehensive income. EFRAG TEG members were also provided with the views on the two topics from the EFRAG Insurance Accounting Working Group.

EFRAG TEG members were also given an update on discussions recently held by the EFRAG Insurance Accounting Working Group in relation to mutual entities.

### **IFRS Interpretations Committee Issues - *IAS 12 Income Taxes***

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At its April 2014 meeting, EFRAG TEG received an update of the recent IFRS Interpretation Committee decision regarding the recognition of deferred tax assets for unrealised losses of debt instruments measured at fair value. No decisions were taken.

### **IFRS 2 *Share-based Payment (Proposed narrow-scope amendments)***

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At the April 2014 EFRAG TEG meeting, EFRAG staff illustrated the four narrow-scope amendments to IFRS 2 currently being discussed by the IASB, for which an Exposure Draft is planned to be issued in June. The amendments address: how vesting conditions affect the measurement of a cash-settled award; whether 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.

More generally, EFRAG TEG expressed concern that the continuous introduction of piecemeal changes in IFRS 2 to solve narrow issues creates additional complexity and does not make the basic requirements any clearer.

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

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At its April 2014 meeting, EFRAG TEG received a summary of the comment letter analysis prepared by IASB staff for the March meeting of the IASB. In addition, EFRAG TEG members were provided with a summary of the comments of the IASB members in response to the comment letter analysis.

## **Bulletins on the IASB's *Conceptual Framework Project***

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At its April 2014 meeting, EFRAG TEG discussed the draft of a Bulletin on presentation and disclosures under the business model concept. EFRAG TEG members felt that, before providing tentative views on this topic, it would be necessary to consider in more detail how the use of OCI (including recycling) and measurement would be influenced.

## **EFRAG Working Groups**

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At its April 2014 meeting, EFRAG TEG discussed updates to the terms of reference for EFRAG's working groups.

## **EFRAG Short Discussion Series - Improvements to IAS 37**

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At the April 2014 EFRAG TEG meeting, EFRAG staff presented the outline of a new Short Discussion Series paper. The paper aims to consider what possible amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and/or to other IFRS could accommodate concerns raised by IFRIC 21 *Levies*.

EFRAG TEG supported the decision to develop a paper, and gave guidance to considering other IFRS than IAS 37 and the recognition of a liability to pay the levy. EFRAG TEG directed the EFRAG staff also to consider the broader issue of what distinguishes transactions with the Government from normal exchange transactions.

## **IASB Exposure Draft *Disclosure Initiative - Proposed amendments to IAS 1***

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At its April 2014 meeting, EFRAG TEG approved draft comment letter on the IASB Exposure Draft *Disclosure Initiative – Proposed amendments to IAS 1*.

EFRAG TEG praised the IASB's follow up on its own proactive efforts to enhance the relevance of financial reporting and disclosures more particularly and encourage entities to use judgment and apply relevance.

## **EFRAG/ASBJ/OIC Joint Issues Paper *Goodwill: Reintroducing the impairment and amortisation approach?***

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At the April 2014 EFRAG TEG meeting, EFRAG staff discussed with EFRAG TEG the next step in the development of a joint paper with the OIC and the ASBJ on the subsequent accounting for goodwill.

EFRAG TEG supported further development of the paper and offered suggestions on areas for improvements. In particular, the paper should explain more if and why either amortisation or impairment of goodwill provides the most relevant information. EFRAG TEG noted that it would not be appropriate for EFRAG to express any tentative position at this stage.

## **IFRS 3 *Business Combinations* - Subsequent accounting for acquisition step-ups**

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At their April 2014 meeting, EFRAG TEG discussed a revised version of a paper dealing with presentation of information on the reversal of acquisition step-ups.

EFRAG TEG discussed the different alternatives presented in the paper and rejected the use of OCI for the reversal of acquisition step-ups. It was agreed that the paper should also consider the option for disclosure of such information not being a requirement; but being on a voluntary basis only.