

June 2015

EFRAG Update

The EFRAG Update is published on a monthly basis to inform constituents about due process publications, public technical discussions held and decisions taken during that month.

June Publications

Comment Letter

EFRAG published its comment letter in response to the IASB's Exposure Draft ED/2015/1 *Classification of Liabilities (Proposed amendments to IAS 1)* on 22 June 2015. For more details, please see the [EFRAG website](#).

Letter to the IASB

On 15 June 2015, EFRAG sent a letter to the IASB requesting a public fatal flaw review of the forthcoming standard on leases. For more details, please see the [EFRAG website](#).

Feedback Statement

A feedback statement summarising constituent input and how it was taken into account in the finalisation of the comment letter in response to the IASB Exposure Draft ED/2014/6 *Disclosure Initiative (Proposed amendments to IAS 7)* was published on 4 June. For more details, please see the [EFRAG website](#).

Annual Review

EFRAG published its Annual Review 2014 on 10 June. To access the review, please see the [EFRAG website](#).

June 2015 meetings

This edition of the EFRAG Update contains summaries of meetings and conference calls held in June by the:

- EFRAG Board; and
- EFRAG Technical Expert Group (EFRAG TEG).

Detailed meeting reports

EFRAG Board Meeting – 24 June

The EFRAG Board met on 24 June and discussed the following:

- IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*
- Statement of cash flows for financial institutions

- Impact of IFRS 9 on insurance entities
- EFRAG Work Plan

IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*

The EFRAG Board considered a first analysis of the Conceptual Framework Exposure Draft. The EFRAG Board decided to issue a public consultation document on that basis and to continue deliberations during the comment period, so as to analyse the most significant proposals further, taking into account the widened mandate of EFRAG. As a result, the EFRAG Board might update its public consultation document during the comment period.

EFRAG also decided to write to the IASB requesting an extension of the comment period to 31 December 2015.

Statement of cash flows for financial institutions

The EFRAG Board approved the issue of a short discussion series paper considering the usefulness of the statement of cash flows prepared by financial institutions.

IFRS 9 *Financial Instruments*

- Impact of IFRS 9 on insurance entities

The EFRAG Board considered the tentative view expressed in the draft endorsement advice on IFRS 9 *Financial Instruments* that it would advise the EC to request a deferral of IFRS 9 for insurers, if appropriate evidence of the need was available. At this meeting, the EFRAG Board noted the ongoing discussion at the IASB and tentatively decided that it would continue to support a deferral of IFRS 9 for insurers, unless an alternative and simpler solution became available.

- Recycling of equity instruments

The EFRAG Board reversed the tentative decision made at its April meeting and decided not to write to the IASB at this time to request that gains and losses on equity instruments measured at fair value through OCI be recycled on derecognition. Further consideration will be given to the issue once IFRS 9 is applied and work on an impairment model is further developed.

EFRAG Work plan

The EFRAG Board approved the work plan as presented.

EFRAG Board Meeting – 3 June

The EFRAG Board met with the IASB Vice-chairman, Ian Mackintosh, and discussed the forthcoming Leases standard and the IASB 2015 Agenda Consultation. In addition, the EFRAG Board discussed the following:

- IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*
- Preparation for the July Accounting Standards Advisory Forum meeting

IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*

The EFRAG Board considered issues for inclusion in the EFRAG public consultation document. It supported the high level directions submitted in the agenda paper.

Preparation for the July Accounting Standards Advisory Forum meeting

The EFRAG Board considered a paper that considered how profit or loss could be distinguished from other comprehensive income. The EFRAG Board approved the paper for discussion at the July meeting of the Accounting Standards Advisory Forum.

EFRAG Board – June written procedures

The EFRAG Board approved the following documents, using written procedures:

- Final Comment Letter on IASB Exposure Draft ED/2015/1 *Classification of Liabilities (Amendments to IAS 1)*
- Final Comment Letter on IASB Exposure Draft ED/2015/2 *Effective Date of IFRS 15 (Proposed amendments to IFRS 15)*

EFRAG Board – Expected July written procedures

During July, the EFRAG Board is expected to approve the following documents, using written procedures:

- Draft Comment Letter on IASB Exposure Draft ED/2015/5 *Amendments to IAS 19 and IFRIC 14 - Remeasurement at a plan amendment, curtailment or settlement / Availability of a refund from a defined benefit plan.*
- Final Comment Letter on IASB Exposure Draft ED/2015/4 *Updating References to the Conceptual Framework (Proposed amendments to IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32).*

EFRAG Technical Expert Group (TEG) – Meeting on 10, 11 and 12 June

The EFRAG Technical Expert Group met on 10, 11 and 12 June, and discussed the following:

- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 9 *Financial Instruments*
- IASB Exposure Draft ED/2015/1 *Classification of Liabilities (Proposed amendments to IAS 1)*
- IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*
- IASB Project *Annual Improvements to IFRSs 2014–2016 Cycle*
- IASB Project *Disclosure Initiative*
- IASB Project *Insurance Contracts*
- IFRS Interpretations Committee Project: IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- IFRS Interpretations Committee Project: IAS 21 *The Effects of Changes in Foreign Exchange Rates*
- IFRS Interpretations Committee Project: IAS 23 *Borrowing Costs*

- IFRS Interpretations Committee Project: IAS 40 *Investment Properties*
- EFRAG's proactive work on accounting implication of negative interest rates
- EFRAG/OIC/ASBJ Joint Research Project *Accounting for Goodwill*
- EFRAG's proactive work on statement of cash flows – issues for financial institutions
- Preparation for the July Accounting Standards Advisory Forum (ASAF) meeting

IFRS 15 *Revenue from Contracts with Customers*

EFRAG TEG discussed a paper analysing some of the forthcoming amendments to IFRS 15 *Revenue from Contracts with Customers* resulting from issues considered by the IASB/FASB Transition Resource Group. EFRAG TEG generally agreed with the IASB's tentative decisions.

IFRS 9 *Financial Instruments*

EFRAG TEG discussed:

- the final results of the follow-up questionnaire on IFRS 9;
- a draft letter to the IASB on recycling of gains or losses on equity instruments measured at fair value through other comprehensive income; and
- potential accounting implications for transfers of financial assets within conglomerates between an accounting treatment under IFRS 9 to an accounting treatment under IAS 39.

EFRAG TEG requested further changes to the follow-up questionnaire and to the draft letter to the IASB. It also expressed the view that the issue of potential transfers should not be over-engineered, given the information received that the occurrence of these transfers was remote. Some pragmatic approach proportionate to the issue at stake should be considered instead.

IASB Exposure Draft ED/2015/1 *Classification of Liabilities (Proposed amendments to IAS 1)*

EFRAG TEG considered the feedback received in response to EFRAG's draft comment letter. Considering the support received for the views expressed in EFRAG's initial assessment, EFRAG TEG agreed to recommend a final comment letter to the EFRAG Board supporting the proposed amendments in the exposure draft, while reiterating its recommendations that the IASB should:

- provide additional clarifications in identified situations where the application of the classification requirements was still unclear; and
- further explore, in an active standard-setting mode, whether current guidance always provides the most relevant information when rights to defer settlement are not substantive.

IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*

EFRAG TEG discussed the draft comment letter in response to the IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting* that it intended to recommend to the EFRAG Board. EFRAG TEG decided to include an analysis of the guidance on the unit of account in the exposure draft as an appendix to the draft comment letter. It also decided to recommend seeking input from constituents on the transition requirements included in the IASB Exposure Draft ED/2015/4 *Updating References to the Conceptual Framework*.

EFRAG TEG finalised its advice to the EFRAG Board on the draft comment letters on the Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting* and on the Exposure Draft ED/2015/4 *Updating References to the Conceptual Framework* at a conference call held on 18

June 2015.

IASB Project *Annual Improvements to IFRSs 2014–2016 Cycle*

EFRAG TEG discussed an issues paper on the forthcoming exposure draft. No decisions were taken at the meeting.

IASB Project *Disclosure Initiative*

EFRAG TEG received an update on current developments in the IASB project, including the recent tentative decisions made by the IASB on materiality and on disclosure of accounting policies. EFRAG TEG also discussed possible amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* proposed by the IASB in collaboration with the staff of the Italian standard setter, Organismo Italiano di Contabilità. EFRAG TEG generally agreed that, currently, the scope of retrospective application was too wide. However, EFRAG TEG generally supported the current distinction between changes in estimates and changes in how accounting policies are implemented, highlighting that such a distinction may be valuable to identify different disclosure requirements.

IASB Project *Insurance Contracts*

EFRAG TEG received an update on the IASB re-deliberations in May regarding the application of the variable fee approach to mutualisation, revenue and transition, the proposed accounting for indirect participation contracts and whether to provide an accounting policy choice for the presentation of interest expense for contracts with participation features. EFRAG TEG also discussed an issues paper summarising key features of certain types of life insurance contracts in Europe and an issues paper exploring possible changes to insurance liability accounting under the existing IFRS 4 *Insurance Contracts* that might reduce accounting mismatches, if there was no deferral of IFRS 9 *Financial Instruments* for insurers. EFRAG TEG also received feedback from the Insurance Accounting Working Group on each of the topics discussed. No decisions were taken at the meeting.

IFRS Interpretations Committee Project: *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

EFRAG TEG discussed an issues paper on the IFRS Interpretations Committee discussions on the scope of IFRS 5. No decisions were taken at the meeting.

IFRS Interpretations Committee Project: *IAS 21 The Effects of Changes in Foreign Exchange Rates*

EFRAG TEG discussed an issues paper in which examples were provided to illustrate the tentative decisions taken by the IFRS Interpretations Committee with regards to foreign currency transactions and advance consideration under IAS 21. EFRAG TEG supported the view expressed by the IFRS Interpretations Committee and concurred with the decision taken by the IFRS Interpretations Committee not to address the sweep issue in the guidance being developed.

IFRS Interpretations Committee Project: *IAS 23 Borrowing Costs*

EFRAG TEG discussed an issues paper related to the accounting treatment of borrowing costs that relate to funds borrowed specifically to finance the construction of a qualifying asset, once the construction of the qualifying asset has been completed. EFRAG TEG supported the IFRS Interpretations Committee's tentative decision that IAS 23 should be amended through an annual improvement to clarify that specific borrowings should be included within the general borrowings when the corresponding asset ceases to be a qualifying asset. No decisions were taken at the meeting.

IFRS Interpretations Committee Project: IAS 40 *Investment Properties*

EFRAG TEG discussed an issues paper related to reclassification of investment properties under construction or development, as input into an initial EFRAG draft response to the forthcoming IASB exposure draft. EFRAG TEG tentatively supported the IASB decision to amend paragraph 57 of IAS 40 to reinforce a principle for reclassifications based on the change in use. No decisions were taken at the meeting.

EFRAG's proactive work on accounting implication of negative interest rates

EFRAG Secretariat presented a project plan and a paper focusing on some accounting issues related to the application of IAS 39 and IFRS 9 when interest rates are negative. EFRAG TEG discussed whether the scope of the project should be widened to address other standards and also deal with the accounting implications of a low-interest-rate environment. It was noted that in the current environment there are issues with the application of discounting on pension liabilities and long-term provisions in IAS 17. EFRAG TEG recommended that the project should focus on identifying if there are new, specific accounting issues that need to be addressed.

EFRAG/OIC/ASBJ Joint Research Project *Accounting for Goodwill*

EFRAG TEG discussed an issues paper related to some of the requirements in IAS 36 *Impairment of Assets*, specifically on frequency of impairment testing, identification of cash-generating units and association of goodwill. EFRAG TEG expressed different views on when a full-scale impairment test would be required, if annual amortisation of goodwill was reintroduced. Some expressed the view that the requirements in IAS 36 could be simplified. However, there was no consensus for the introduction of a practical expedient in the identification of the cash-generating units to which goodwill should be allocated. Tomo Sekiguchi, Board member of the ASBJ, presented the results of a survey conducted in Japan on impairment and amortisation of goodwill under Japanese GAAP.

EFRAG's proactive work on statement of cash flows – issues for financial institutions

EFRAG Secretariat presented a revised draft of the proactive paper following the discussion at the EFRAG TEG May meeting. EFRAG TEG generally supported the direction and the content of the paper. There were some recommendations to improve the description of how the banks' specific business activities should affect the information on liquidity and to clarify the population of entities to which the discussion applies. EFRAG TEG agreed that the paper could be submitted to the EFRAG Board for approval.

Preparation for the July Accounting Standards Advisory Forum (ASAF) meeting

EFRAG TEG discussed two issues papers that summarise current developments in the IASB projects, *Rate-regulated Activities* and *Discount Rates*. No decisions were taken at the meeting.