

May 2013

Summary of EFRAG Technical Expert Group (TEG) meeting May 2013

EFRAG TEG held a conference call on 11 April 2013 to approve EFRAG's draft comment letter on the IASB Exposure Draft *Financial Instruments: Expected Credit Losses*.

EFRAG TEG held a conference call on 18 April 2013. The following topics were discussed:

- IASB Exposure Draft *Defined Benefit Pension Plans: Employee Contributions*
- EFRAG Public Consultation *Is there a need for specific financial reporting for long-term investing activities business models?*

EFRAG TEG held a conference call on 29 April 2013. The following topics were discussed:

- IASB Exposure Draft *Defined Benefit Pension Plans: Employee Contributions*
- EFRAG Public Consultation *Is there a need for specific financial reporting for long-term investing activities business models?*

From 6 to 8 May 2013 EFRAG TEG held its monthly meeting. The following topics were discussed:

- EFRAG/ANC/FRC Proactive Project *The Role of the Business Model in Financial Reporting*
- EFRAG/OIC/DASB/ICAC Proactive Project *Separate Financial Statements Prepared Under IFRS*
- EFRAG Field work Policy
- Technical and Political Considerations in Financial Reporting
- IASB Exposure Draft *Regulatory Deferral Accounts*
- The Conceptual Framework for Financial Reporting
- IASB Review Draft *IFRS 9 Chapter 6: Hedge Accounting*
- IASB Exposure Draft *Classification and Measurement: Limited Amendments to IFRS 9*
- IFRIC Interpretation *Levies*
- IASB Project *Insurance Contracts*
- IASB Project *Leases*

Highlights

EFRAG Public Consultations

EFRAG launched a public consultation *Is there a need for specific financial reporting for long-term investing activities business models?* on 8 May 2013. Comments are requested by 25 June 2013. For more information see page 2.

Comment Letters

EFRAG published its draft comment letter in response to IASB Exposure Draft *Financial Instruments: Expected Credit Losses* on 16 April 2013. Comments are requested by 17 June 2013. For more information see page 2.

EFRAG published its draft comment letter in response to IASB Exposure Draft *Defined Benefit Pension Plans: Employee Contributions* on 29 April 2013. Comments are requested by 5 July 2013. For more information see page 3.

Feedback Statements

EFRAG TEG approved a feedback statement on the comment letter in response to IASB Exposure Draft *Classification and Measurement: Limited Amendments to IFRS 9*. The feedback statement is expected to be published shortly.

EFRAG TEG approved a feedback statement on the comment letter in response to IASB Review Draft *IFRS 9 Chapter 6: Hedge Accounting*. The feedback statement is expected to be published shortly.

IASB Exposure Draft *Financial Instruments: Expected Credit Losses*

In its 11 April 2013 conference call, EFRAG TEG approved a draft comment letter in response to the Exposure Draft. In its draft comment letter, EFRAG noted that conceptually it supported the integrated effective interest rate approach in the 2009 ED and supported the time proportionate approach in the Supplementary Document; however, EFRAG acknowledged the significant operational concerns expressed by constituents regarding the implementation of those approaches.

EFRAG believed that the recognition of a portion of expected credit losses at initial recognition was not conceptually sound. However, in the absence of a better model, the IASB should finalise its impairment requirements having this approach as a basis and taking into account EFRAG's recommendations. EFRAG accepted the proposed approach because it will result in a more timely recognition of expected credit losses, and hence address the weakness of an incurred loss model in a pragmatic way.

EFRAG's preliminary assessment was that the proposed approach strikes an acceptable balance between the cost of implementation and the underlying economics, while meeting the need to provide earlier for expected credit losses as expressed by financial regulators and other constituents. However, EFRAG emphasised that it was undertaking a field test with the National Standard Setters of France, Germany, Italy and the UK in order to better substantiate its final assessment on the proposals.

Finally, with respect to the model proposed by the FASB, EFRAG understood that any impairment model that uses a single measurement approach that recognises lifetime expected credit losses from initial recognition would not be less subjective and not necessarily operationally simpler compared to the proposed approach in the Exposure Draft. EFRAG believed that such an approach would provide less relevant information about the effects of changes in credit quality subsequent to initial recognition, and would not result in an appropriate balance between the representation of the underlying economics and the cost of implementation as the double counting effect of expected loss recognition at inception is aggravated by the consideration at once of life time expected losses.

IASB Exposure Draft *Defined Benefit Pension Plans: Employee Contributions*

In its conference call on 18 April 2013 EFRAG TEG discussed a draft comment letter on the Exposure Draft. The draft comment letter was approved in the 29 April EFRAG TEG conference call and published that day.

In the draft comment letter EFRAG agreed with the IASB's proposals on the basis that they clarify the existing requirements of IAS 19 (2011) on accounting for contributions from employees or third parties set out in the formal terms of a defined benefit plan, and provide relief to preparers. EFRAG also supported the IASB's proposal to address the existing inconsistency in IAS 19 (2011) in relation to the attribution of these contributions, as this would reduce potential divergence in practice.

Additionally, EFRAG in its draft comment letter specifically asked constituents whether they are aware of any circumstances in which the application of the practical expedient provided by the IASB would result in contributions being inappropriately recognised as reductions in service cost.

EFRAG Public Consultation *Is there a need for specific financial reporting for long-term investing activities business models?*

At the EFRAG TEG meeting in April, EFRAG TEG members agreed to conduct a public consultation on long-term investing activities with the objective to help EFRAG:

- (a) to contribute, in its role of technical advisor for financial reporting matters, to the European Commission consultation on the future of long-term investment;
- (b) to better characterise 'long-term investment' business model and contribute to accounting standard setting for such activities.

In conference calls on 18 and 29 April, EFRAG TEG members discussed the draft consultation and ultimately approved the consultation document.

EFRAG/ANC/FRC Proactive Project *The Role of the Business Model in Financial Reporting*

EFRAG TEG members continued their discussion on a bulletin on the *Role of the Business Model in Financial Statements*. The bulletin, which is part of an agreement between the EFRAG and the national standard-setters of France, Germany, Italy and the United Kingdom to promote discussion on topics related to the IFRS Conceptual Framework debate is planned to be issued by the end of May/early June.

EFRAG/OIC/DASB/ICAC Proactive Project *Separate Financial Statements Prepared Under IFRS*

At its May 2013 meeting, EFRAG TEG members received an update on the European outreach to users of separate financial statements, and discussed whether the current IFRS requirements provided the necessary information in regard to distributable dividends. They asked the EFRAG staff to consider this issue further, keeping in mind how current IFRS requirements on distributable dividends were being applied in practice, and the fact that the legal and regulatory framework for dividends often varied throughout and outside Europe.

EFRAG TEG members also discussed the measurement of investments in separate financial statements and whether the equity method should be allowed. A number of EFRAG TEG members considered that this led to discussing the conceptual basis of the equity method; whether it should be considered as a 'valuation' or 'one line consolidation' method. They also asked the

EFRAG staff to analyse the pros and cons of applying the equity method in the separate financial statements.

EFRAG Field work Policy

At its May 2013 meeting, EFRAG TEG discussed the main characteristics and principles of EFRAG's field work, as well as why and when such field work was necessary. EFRAG's field work is designed to gather evidence and facts. It requires the involvement of practitioners, and can be done through surveys, field tests, workshops and/or interviews. EFRAG TEG members also discussed how EFRAG conducted its field work in cooperation with National Standard-Setters in order to pool together available European resources to contribute to the IASB's standard-setting effort, and make European influence in the development of IFRS as strong and effective as possible.

Technical and Political Considerations in Financial Reporting

At its May 2013 meeting, EFRAG TEG considered how technical and political considerations in Financial Reporting could be separately identified and tackled. This was intended to support the EFRAG Supervisory Board in its considerations of how Europe should be best organised to exercise influence on the development of IFRS.

IASB Exposure Draft *Regulatory Deferral Accounts*

The Exposure Draft proposes to allow those entities that currently recognise regulatory deferral account balances in accordance with their previous GAAP, to continue to do so when making the transition to IFRS.

While the IASB prepares a comprehensive standard on Rate Regulated Activities, it wishes to facilitate the adoption of IFRS by Rate Regulated entities which are currently exempt from applying IFRS in their jurisdiction as long as there is no specific IFRS requirement. The IASB therefore believes that such an interim standard serves improved comparability although it introduces an option on how to account for Rate Regulated activities in IFRS.

At its May 2013 meeting EFRAG TEG discussed an initial draft comment letter on the Exposure Draft. The discussion will continue in subsequent meetings.

The Conceptual Framework for Financial Reporting

At its May 2013 meeting EFRAG TEG approved Bulletins on the role of a Conceptual Framework and the asset/liability approach. Before being issued, the Bulletins would also require approval by the ANC, ASBG, FRC and OIC. EFRAG TEG also discussed Bulletins on performance reporting and measurement. EFRAG TEG will discuss these Bulletins again at its June 2013 meeting.

Furthermore, EFRAG TEG considered the IASB's tentative decisions regarding the forthcoming discussion paper on the Conceptual Framework.

Liability definition: EFRAG TEG members tentatively favoured a model suggested by the IASB that identifies an obligation at the earlier of the two following times:

- when the entity incurs an unconditional obligation to transfer an economic resource; and
- when the entity receives benefits in exchange for which it accepts a responsibility to transfer an economic resource.

However, in some cases it could be challenging to assess when the entity receives benefits in exchange for which it accepts a responsibility to transfer an economic resource.

Probability recognition: The IASB is currently proposing that there should be no explicit recognition thresholds regarding uncertainty. EFRAG TEG members thought that the Conceptual Framework should at least include guidance on how such thresholds could be set at standards level.

Debt/Equity: Some EFRAG TEG members supported the directions the IASB was taking on distinguishing debt and equity. However, it was also noted that the IASB should address hybrid instruments and if the IASB would allow or require the most subordinate instruments to be considered equity (although they would meet the definition of liabilities), that could result in some instruments being considered equity in some periods and liabilities in other periods. More work on this issue was therefore needed. It was noted that the perspective from which financial statements were considered would play a role in determining whether certain instruments should be classified as debt or equity.

Measurement: The IASB has tentatively decided to group measurement methods into three general categories. EFRAG TEG members thought that ‘other measures based on estimated cash flows’ was a separate category similar to ‘cost-based measures’ and therefore should include fair value. Fair value is one form of estimated cash-flow measure and should not be considered in isolation or pre-emptively, especially given IFRS 13 *Fair Value Measurement* specifies fair value as an exit price.

IASB Review Draft IFRS 9 Chapter 6: Hedge Accounting

At its May 2013 meeting EFRAG TEG discussed and approved a feedback statement, which covers EFRAG’s letter to the IASB on the results of a field test, carried out in partnership with European National Standard Setters, of the requirements of the Review Draft and a supplementary comment letter on the impact of the Review Draft on current macro hedge accounting. The feedback statement reflects how EFRAG considered the views received from respondents during the field test and in response to the draft supplementary comment letter.

IASB Exposure Draft *Classification and Measurement: Limited Amendments to IFRS 9*

At its May 2013 meeting EFRAG TEG discussed and approved a feedback statement on its comment letter in response to the Exposure Draft. The feedback statement reflects how EFRAG considered the views received from respondents in developing its final comment letter.

IFRIC Interpretation *Levies*

EFRAG TEG members had a discussion on the Draft Endorsement Advice on the upcoming Interpretation, expected to be published by the IASB in May 2013. The EFRAG staff presented a first draft of the Draft Endorsement Advice, based on the IASB staff paper discussed by the IASB in April 2013, and highlighted the key concerns expressed by respondents to EFRAG’s Comment Letter. EFRAG TEG members noted that the Draft Endorsement Advice should reflect the concerns already expressed by EFRAG in its comment letter and shared by respondents.

IASB Project *Insurance Contracts*

EFRAG TEG members discussed an initial draft of a future EFRAG response to IASB’s insurance contracts re-exposure but did not reach any conclusions.

IASB Project *Leases*

EFRAG TEG received a presentation from the EFRAG staff summarising the ISAB’s decisions on the project so far. No decisions were taken at the meeting.