

October 2013

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

EFRAG TEG held a conference call on 17 September 2013 to discuss the IASB Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*.

EFRAG TEG held a conference call on 30 September 2013 to discuss the IASB Exposure Draft *Leases*.

From 9-11 October 2013 EFRAG TEG held its monthly meeting. The following topics were discussed:

- IASB Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*
- IASB Exposure Draft *Leases*
- IAS 28 *Investments in Associates and Joint Ventures*
- IASB Project *Accounting for Macro Hedging*
- IASB Exposure Draft *Insurance Contracts*
- EFRAG Public Consultation *Is there a need for specific financial reporting for long-term investing activities business models?*
- Korean Accounting Standards Board Paper *Rate-regulated Activities – A Possible Basis for Recognition of Regulatory Assets*
- *Revenue from Contracts with Customers*
- EFRAG Comment Paper *Emission Trading Schemes*

Highlights

Comment letters

EFRAG published its draft comment letter on the IASB Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* on 26 September 2013. A short summary of EFRAG's preliminary positions on the proposals in the Discussion Paper was also published. For more details please see page 2.

EFRAG published its final comment letter on the IASB Exposure Draft *Leases* on 14 October 2013. For more details please see page 2.

Feedback statements

EFRAG finalised a feedback statement summarising constituent comment on the EFRAG Comment Paper *Emission Trading Schemes*. The feedback statement will be published shortly. For more details please see page 4.

Other letters

EFRAG finalised letters to the IASB and the European Commission following the EFRAG Public Consultation *Is there a need for specific financial reporting for long-term investing activities business models?* The letters will be published shortly. For more details please see page 3.

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

On a conference call on 17 September 2013, EFRAG TEG approved a draft comment letter on the Exposure Draft. EFRAG welcomes that the IASB has listened to calls from European Constituents and initiated a project on improving its Conceptual Framework.

EFRAG agrees with the high priority the IASB has given to this project and with the aim of completing the project within a few years. EFRAG appreciates the work that the IASB has done in analysing areas that have proven problematic in the past and supports the practical approach taken in the project.

However, EFRAG does not agree with all of the proposed solutions and thinks that some of the issues should be addressed on a more conceptual basis.

At its October 2013 meeting, EFRAG TEG considered three draft Bulletins on complexity, measurement and the distinction between equity and liabilities. The Bulletins will be considered again by EFRAG TEG in November.

IASB Exposure Draft Leases

On its conference call on 30 September 2013 and at its October meeting, EFRAG TEG considered the different inputs received from constituents and various outreach events and discussed its final comment letter.

The majority of constituents support the general direction of the project, but significant concerns have been raised about certain aspects of the proposals, both on the conceptual and practical level.

EFRAG acknowledges the efforts of the IASB to respond to the concerns raised on the 2010 Exposure Draft, but believes that some of the solutions have brought complexity and made the proposals difficult to understand and be accepted. In particular, EFRAG disagrees with the introduction of a dual measurement model and believes the conditions of transfer of control of the right of use must be revisited to capture only in-substance purchases.

EFRAG concluded that the IASB should not finalise the Standard based on the Exposure Draft and have made a number of suggestions to simplify the proposals and ensure a significantly better cost-benefit balance.

IAS 28 Investments in Associates and Joint Ventures

At its October meeting, EFRAG TEG discussed a draft of an EFRAG staff paper that questions whether the equity method of accounting in IAS 28 should be regarded as a one-consolidation method or as a measurement basis. The paper is aimed at stimulating debate within Europe and helping the IASB to solve inconsistencies that the explicit adoption of exclusive control as a basis to identify the boundary of the reporting entity has introduced in current IFRS.

EFRAG TEG members thought the paper was helpful in considering the implications of qualifying the equity method as one or the other. EFRAG TEG gave directions to bring greater clarity in the objective of the short paper and better balance background and developments so that the paper can be published for discussion.

IASB Project Accounting for Macro Hedging

At its October meeting, EFRAG TEG received an educational session on macro hedging practices for interest rate risk management in the banking industry from Barclays.

IASB Exposure Draft *Insurance Contracts*

At its October meeting, EFRAG TEG was provided with feedback from events held to discuss the proposals. These events included a workshop held in Brussels dealing with issues encountered by participants in the field-test organised by EFRAG and National Standard Setters, outreach events held jointly with the IASB and National Standard Setters in Frankfurt, London, Paris, Rome and Stockholm and the EFRAG Insurance Accounting Working Group meeting of 8 October 2013.

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

At its October meeting, EFRAG TEG discussed and approved subject to drafting:

- a letter to the IASB to contribute to better characterising long-term investing activities business models under IFRS; and
- a letter to the European Commission, in its role of technical advisor for financial reporting matters, to provide feedback from EFRAG's consultation and discussions related to this topic.

Both letters were a result of the EFRAG initiated public consultation on the accounting for long-term investing activities business models held between May and July 2013, and more generally of comments received in the various consultations processes leading to IFRS 9.

Korean Accounting Standards Board Paper *Rate-regulated Activities - A Possible Basis for Recognition of Regulatory Assets*

At its October meeting, EFRAG TEG considered a paper from the Korean Accounting Standards Board (KASB). The purpose of the paper is to provide input to the IASB's Discussion Paper on Rate-regulated Activities.

EFRAG TEG welcomed the input on this area of accounting. However, it was noted that the paper relied on the notion of 'collective customers' which some EFRAG TEG members believed could only apply in rate regulation of an entity that has monopoly or near-monopoly status. EFRAG TEG noted that it may be useful to further address a number of issues, including the features of government influence on regulation and what differentiates a rate-regulated entity from a non-regulated entity. Some EFRAG TEG members noted an analogy to the intangible asset model in IFRIC 12 *Service Concession Arrangements* and others thought that the idea to defer costs to future periods seemed to reflect the concept of matching costs to underlying revenues.

EFRAG TEG members generally thought that the paper provided interesting thoughts on some of the critical issues on recognition of regulatory assets. EFRAG TEG welcomes the fruitful debate that is only starting and the useful contribution that standard setters outside of Europe – such as the KASB - provide.

Revenue from Contracts with Customers

At its October 2013 meeting, EFRAG TEG discussed the following sweep issues that the IASB will consider in its October meeting:

- distinguishing impairment losses from price concessions;
- constraints related to variable consideration; and
- how to distinguish between licences transferred at a point in time and licences transferred over a period of time.

The IASB will consider whether to improve the guidance in the standard on distinguishing between impairment losses and price concessions such that it ensures a consistent application or to introduce a collectability threshold. EFRAG TEG members thought that in many cases an entity would know when it is providing a price concession. EFRAG TEG was accordingly not in favour of introducing a collectability threshold for dealing with this issue, instead judgement should be applied in distinguishing between impairment losses and price concessions.

It was noted that some entities, particularly in the pharmaceutical, media and entertainment industries, were concerned about the IASB's tentative decision to remove the requirement that revenue from sales-based royalties related to intellectual property should be deferred until the customer's subsequent sales had occurred. EFRAG TEG generally agreed with the concerns expressed on its removal, but some EFRAG TEG members thought that the guidance could be formulated differently than in the 2012 Exposure Draft. For example, it could be stated that the transaction price for the types of contracts in question should only include amounts to which an entity would be virtually certain to be entitled.

EFRAG thought it was important to provide the IASB recommendations on these topics to be considered in ultimate deliberation before finalisation of the standard given the concerns that were raised about them in the EFRAG workshops and field-test.

EFRAG TEG members also provided some examples for distinguishing between licences satisfied at a point in time versus licences transferred over a period of time.

EFRAG Comment Paper *Emission Trading Schemes*

At its October 2013 meeting, EFRAG TEG members approved the final feedback statement summarising comments from constituents on the EFRAG Comment Paper.