

September 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.

### September Publications

#### Final Endorsement Advice

On 15 September, EFRAG submitted its final endorsement advice to the European Commission, relating to the adoption of IFRS 9 for use in the European Union and European Economic Area. For more details, please see the [EFRAG website](#).

#### Letter to the European Commission

On 8 September, EFRAG recommended to the European Commission to further postpone the endorsement process on the amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* until the IASB finalises its due process on its proposals to amend the effective date of the amendments to IFRS 10 and IAS 28. For more details, please see the [EFRAG website](#).

#### Draft Comment letters

On 4 September, EFRAG published its draft comment letter in response to the IASB's Exposure Draft ED/2015/6 *Clarifications to IFRS 15*. Constituents' views on the draft comment letter are requested by 22 October 2015. For more details, please see the [EFRAG website](#).

On 8 September, EFRAG published its draft comment letter on the IASB's Exposure Draft ED/2015/7 *Effective Date of Amendments to IFRS 10 and IAS 28*. For more details, please see the [EFRAG website](#).

On 1 October, EFRAG published its draft comment letter on the *2015 IASB Agenda Consultation*. On the same day, EFRAG also launched its own *Proactive Agenda Consultation* to ensure that EFRAG is allocating resources in an optimal way to research work on important topics for Europe. For more details, please see the [EFRAG website](#).

#### Summary Report

On 9 September, EFRAG published a summary report of the Joint Investor Outreach Event on profit or loss (P&L) and other comprehensive income (OCI), led by EFRAG, EFFAS/ABAF and the IASB. For more details, please see the [EFRAG website](#).

#### Comment period

On 29 September, EFRAG extended its comment period until 18 November, for its document for public consultation regarding the IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*, its draft comment letter in response to the IASB Exposure Draft ED/2015/4 *Updating References to the Conceptual Framework*, and to the EFRAG Bulletin, *Profit or Loss*. For more details, please see the [EFRAG website](#).

## September 2015 meetings and conference calls

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

- EFRAG Board
- EFRAG Technical Expert Group (EFRAG TEG)
- EFRAG Consultative Forum of Standard Setters (EFRAG CFSS)

### Detailed meeting reports

#### EFRAG Board meeting on 21 September

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The EFRAG Board met on 21 September and discussed the following:

- Meeting with Michel Prada, Chairman, IFRS Foundation Trustees
- IFRS Foundation *Review of Structure and Effectiveness: Identifying Issues for Review*
- IASB *Request for Views: 2015 Agenda Consultation* and EFRAG's consultation on its proactive work.
- IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*
- IFRS 9 *Financial Instruments*
- EFRAG work plan

#### Meeting with Michel Prada, Chairman, IFRS Foundation Trustees

The EFRAG Board met with Michel Prada and trustee Antonio Zoido and discussed preliminary views on the IFRS Foundation *Review of Structure and Effectiveness*.

#### *IFRS Foundation Review of Structure and Effectiveness: Identifying Issues for Review*

The EFRAG Board agreed that EFRAG's letter for public consultation was addressing the issues in relation to the primary strategic goals 1 to 3: development of a single set of standards; global adoption of standards and consistency of application and implementation (Questions 1 to 6 in the Request for Views). EFRAG did not deal with governance and financing issues which are covered by Questions 7 to 14, as the core of these issues has already been considered by the European Commission in its evaluation of the IAS Regulation and has decided on some recommendations after extensive public consultation. The European Commission is expected to send its recommendations and other comments to the IFRS Foundation responding to the *Request for Views*.

The exchange of views with the trustees focused on due process oversight and quality control in the standard-setting process, including implementation issues.

The EFRAG Board approved the draft comment letter for public consultation with a deadline of 30 November 2015

#### *IASB Request for Views: 2015 Agenda Consultation* and EFRAG's consultation on its proactive work.

The EFRAG Board discussed EFRAG's draft comment letter on the IASB Agenda Consultation. It also discussed, and decided to publish, a separate, albeit parallel, consultation on EFRAG's own Proactive Work, in order to receive feedback on its research activities so far and directions for the future, including the link that should be established with IASB priorities.

The draft comment letter includes an appendix assessing the priorities of the IASB research projects. Where no level of priority is indicated, questions are raised to constituents to help determine the level of priority EFRAG should finally recommend, as different preliminary views have been expressed. Where a level of priority is indicated, EFRAG is happy to have constituents challenge its preliminary assessment.

The EFRAG Board approved the draft comment letter on the IASB Agenda Consultation and the EFRAG Proactive Work Agenda Consultation for public consultation with a comment deadline of 30 November.

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

The EFRAG Board considered issues arising from the IASB's Conceptual Framework Exposure Draft relating to their expectations of the revised Conceptual Framework, the objective of financial reporting and the impact of the distinction between liabilities and equity. The EFRAG Board developed tentative views, which will be reviewed in the light of comments from constituents, that:

- the recommendation on stewardship should be that information needed for decisions to buy/hold/sell should be on the same level as information needed for the assessment of stewardship;
- the Conceptual Framework should, at least in the Basis for Conclusions, explain that although financial reporting is intended to serve the needs of external users, views of preparers who are accountable to investors and expected to have effective communication with them should receive greater attention.
- where significant discrepancies arise between what is proposed and what management would regard as meaningfully depicting the financial position and performance of entities, these discrepancies should be fully justified. This is to minimise non-GAAP measures down to those which are really useful in addition to IFRS compliant financial statements and eliminate those which proliferate where IFRS compliant information is not deemed relevant.

### IFRS 9 *Financial Instruments*

The EFRAG Board noted the tentative decision of the IASB to develop an exposure draft that would help limit the disruptions in financial reporting triggered by the non-alignment of effective dates of IFRS 9 and the forthcoming insurance contracts standard.

### EFRAG work plan

The EFRAG Board approved the work plan as presented.

The summary report of the EFRAG Board meeting of 1 September was included in the EFRAG Update of August 2015. For more information, please see the [EFRAG website](#).

### EFRAG Board – September written procedures

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

- EFRAG Draft Comment Letter on IASB Exposure Draft ED/2015/6 *Clarifications to IFRS 15 Revenue from Contracts with Customers*
- EFRAG Draft Comment Letter on *Effective Date of Amendments to IFRS 10 and IAS 28*

## EFRAG Board – Expected October written procedures

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

- EFRAG Final Comment Letter on Exposure Draft ED/ 2015/6 *Clarifications to IFRS 15 Revenue from Contracts with Customers*
- EFRAG Final Comment Letter on *Effective date of amendments to IFRS 10 and IAS 28*
- EFRAG Final Comment Letter on *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan (Proposed Amendments to IAS 19, IFRS IC 14)*
- EFRAG Draft Comment Letter on IFRS Interpretations Committee Draft Interpretation *Foreign Currency Transactions and Advance Consideration*

## EFRAG TEG meeting on 10 – 11 September

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At its meeting on 10 – 11 September, EFRAG TEG discussed:

- IASB Request for Views *2015 Agenda Consultation*
- IASB Project *Leases*
- IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*
- IASB Research Project *Financial Instruments with Characteristics of Equity*
- EFRAG/OIC/ASBJ Joint Research Project *Accounting for Goodwill*
- IASB Project *Insurance Contracts*
- EFRAG proactive work on the accounting implications of negative interest rates
- Preparation for the ASAF meeting
  - IASB Exposure Draft ED/2014/4 *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*
  - IASB Research Project *Equity Method of Accounting*
  - IASB Research Project *Pollutant Pricing Mechanisms*

### IASB Request for Views *2015 Agenda Consultation*

EFRAG TEG discussed the questions included in the IASB 2015 Agenda Consultation and the supplementary EFRAG Agenda Consultation. EFRAG TEG expressed the view that the IASB should include a specific section on how it should react to the input provided in the context of post-implementation reviews.

EFRAG TEG discussed the level of priority for each project in the IASB Research Programme. It was agreed to recommend that the EFRAG draft comment letter proposes that the IASB should add a project on discontinued operations (to address the different implementation issues recently raised with the IFRS Interpretations Committee) and on the possible amendments to existing IFRS arising from the proposed changes to the Conceptual Framework.

## IASB Project Leases

EFRAG TEG discussed the activities to be conducted in the context of the Leases project and considered an initial list of topics to be assessed in the draft endorsement advice.

No decisions were taken at the meeting.

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

EFRAG TEG discussed the content of a questionnaire to be used to test the proposed definitions of assets and liabilities included in the IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*. The questionnaire will be published on EFRAG's website and constituents will be encouraged to complete it.

EFRAG TEG discussed the possible implications that the exposure draft could have for the IASB's project, *Rate-regulated Activities*. EFRAG TEG agreed that there could be circumstances where the regulatory agreement between a rate-regulated entity and a rate regulator created rights and obligations that were currently not reflected in the IFRS financial statements, and would provide relevant information to users. EFRAG TEG is expected to discuss further the boundary of those rights and obligations and the period in which they arise.

EFRAG TEG members acknowledged that the focal issue was about how to appropriately portray the financial performance of activities subject to defined rate regulation. Some EFRAG TEG members thought that the debate should first focus on how to reflect in profit or loss the revenue requirement that an entity is entitled to earn, and then discuss whether resulting adjustments qualify as assets and liabilities under the conceptual framework.

## IASB Research Project *Financial Instruments with Characteristics of Equity*

EFRAG TEG received an update on the IASB's research project *Financial Instruments with Characteristics of Equity*. EFRAG TEG also discussed how EFRAG should approach this project and suggested that EFRAG Secretariat should continue to monitor the IASB's discussions and work closely with EFRAG's working groups and advisory panels. EFRAG would not undertake any proactive effort of its own; however, it would proactively contribute to the work of the IASB.

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

EFRAG TEG discussed possible changes to the requirements in IAS 36 in relation to the methods of determining the recoverable amount, the cash flows to be included in the value-in-use (VIU) calculation, the assessment and reassessment of discount rates and the reversal of impairment losses.

The majority of EFRAG TEG agreed that requiring the use of both VIU and fair value to determine the recoverable amount may not be appropriate and that the expected manner of recovery of the investment may indicate which method is more relevant.

There was also agreement that entities should be allowed to include the effect of expected future capital expenditures and restructurings in the value-in-use calculation.

Finally, the majority agreed to retain the prohibition on reversing impairment losses.

EFRAG Secretariat will reconsider the input received since the start of the second phase of the project and will bring back a paper to summarise the possible input to the IASB project on the subsequent accounting for goodwill.

### IASB Project *Insurance Contracts*

EFRAG TEG discussed specific issues relating to the accounting for insurance contracts.

In relation to the forthcoming exposure draft designed to assist insurance businesses before the new insurance contracts standard is effective, EFRAG TEG considered that the application of the overlay approach should be clarified with an example. Also, both in the case of deferral and the overlay approach, additional disclosures were felt to be necessary.

In relating to the new insurance contracts standard, EFRAG TEG considered that a “defined share” of returns could not solely be based on contractual terms, but also on other sources. Some EFRAG TEG members noted that there should be consistency between the methods to determine the insurance liabilities and the scope of the variable fee approach: if a constructive obligation is included in the liability, it is a clear indication that the contract should qualify.

Finally, EFRAG TEG agreed that a minimum guarantee that is unrelated to the underlying items would not qualify as a defined share.

### EFRAG proactive work on the accounting implications of negative interest rates

EFRAG TEG discussed a draft of the discussion paper on accounting implications of negative interest rates. It provided comments on the content and suggested ways to improve the quality of the arguments.

### Preparation for the ASAF meeting

EFRAG TEG considered a number of topics included on the ASAF agenda for the meeting on 1-2 October as preparation for the views to be expressed by EFRAG at that meeting.

### [IASB Exposure Draft ED/2014/4 Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value](#)

EFRAG TEG discussed the outreach undertaken by the IASB regarding the measurement of quoted investments and CGUs at fair value. EFRAG TEG members considered that the issue was not widespread, but in a few circumstances could be material.

Some EFRAG TEG members supported the introduction of a rebuttable presumption that, when the fair value of a quoted price in an active market is available for the individual financial instruments that comprise the investment, measuring the fair value of the investment by the product of the quoted price of the financial instrument (P) multiplied by the quantity (Q) of instruments held (referred to, hereafter, as the ‘P × Q’ approach) was the most relevant measurement basis.

Others, in contrast, considered that explaining any difference between the fair value of the investment measured by considering any premiums or discounts and the measurement resulting from P x Q would provide useful information.

EFRAG TEG considered that a similar approach should apply to measuring quoted CGUs at fair value.

### IASB Research Project *Equity Method of Accounting*

EFRAG TEG discussed an issues paper that summarised the IASB's tentative decisions on its project, *The Equity Method Accounting*, and the IASB staff proposals to seek views on possible simplifications to the equity method (such as removing the elimination requirements or the requirement to fair value identifiable assets and liabilities). EFRAG TEG noted that the proposals were a significant change to the existing requirements and lacked a sense of direction for what the equity method aimed to portray and to which investments it should apply. In EFRAG TEG's view, it would be difficult to address application issues before the broader topic, on the purpose and objective of the equity method, was addressed. EFRAG TEG reaffirmed its view that the objective of the project was to better address how the equity method should apply, not to challenge and reconsider its use.

### IASB Research Project *Pollutant Pricing Mechanisms*

EFRAG TEG discussed specific issues relating to the accounting for pollutant pricing mechanisms. Uncertainty arose as to whether emission allowances were still distributed for free, but EFRAG Secretariat clarified that it depended on the industry and member states involved. EFRAG TEG did not support a day one gain and discussed whether any allowances received free-of-charge from the government were a liability or needed to be treated as a deferred credit. In addition, relying on hedge accounting mechanics to account for the emission allowances was not supported.

## EFRAG CFSS meeting on 24 September

At its meeting on 24 September, EFRAG CFSS discussed:

- IASB Exposure Draft ED/2014/4 *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*
- IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*
- IASB Exposure Draft ED/2015/6 *Clarifications to IFRS 15 Revenue from Contracts with Customers*
- IASB Publication *IFRIC 21 Levies*
- IASB Request for Views *2015 Agenda Consultation*
- IASB Research Project *Equity Method of Accounting*
- IASB Research Project *Pollutant Pricing Mechanisms*

### IASB Exposure Draft ED/2014/4 *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*

EFRAG CFSS shared the view, already expressed in EFRAG's comment letter to the IASB that the P x Q approach does not always result in relevant information and is not aligned with the unit of account. It was suggested that the IASB could liaise with valuation experts in order to understand whether reliability issues exist and how to address them in order to strike the balance between relevance and reliability.

Some EFRAG CFSS members believed that the IASB should also consider that listed prices normally do not consider the specific rights which arise when volumes higher than one share are traded, but the investment does not meet the definitions of subsidiaries, joint ventures and associates.

EFRAG CFSS believed that the general concerns expressed the use of P x Q to measure quoted investments are also valid for the measurement of CGUs at fair value.

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

EFRAG CFSS discussed two issues in relation to the exposure draft: the measurement guidance included in the exposure draft, and the implications of the proposals in the exposure draft on the rate-regulated activities project.

EFRAG CFSS generally considered that the exposure draft does not provide much guidance on the selection of measurement bases. Considering the examples that were proposed to test whether the guidance was useful, members noted that there was no room to consider possible different measurement bases for financial position and financial performance, no specific reference to business activities beyond what already exists implicitly in current standards, no specific consideration of whether a measurement basis useful for making capital allocation decisions would also serve the stewardship objective. This was shedding doubts as to whether the conceptual framework would support the IASB effectively in making the appropriate decisions in the future.

Regarding the implications of the proposals in the exposure draft on the rate-regulated activities project, EFRAG CFSS broadly agreed that it was important to reflect in profit or loss the amount of revenue and the underlying economic performance that an entity subject to defined rate-regulation is entitled to earn through the revenue requirement agreed with the rate regulator in exchange for the delivery of goods or services. There was general agreement from EFRAG CFSS that the regulatory agreement, through the revenue requirement mechanism, created rights and obligations, which, if enforceable met the definitions of assets and liabilities under the Conceptual Framework exposure draft. However, there was no clear view about whether the respective adjustment in profit or loss represented an adjustment to revenue or another form of income/expense.

### IASB Exposure Draft ED/2015/6 *Clarifications to IFRS 15 Revenue from Contracts with Customers*

EFRAG CFSS discussed EFRAG's draft comment letter in response to the IASB exposure draft and agreed that the changes proposed by the exposure draft could be useful in implementing the new revenue recognition standard. EFRAG CFSS also believed that the IASB should only clarify those issues that are strictly necessary for a proper understanding of IFRS 15.

EFRAG CFSS also expressed concerns that non-authoritative guidance such as the illustrative examples and the Transition Resource Group publications could be perceived as authoritative guidance.

### IASB Publication *IFRIC 21 Levies*

EFRAG CFSS discussed if the modification of the definition of liability in the IASB Conceptual Framework Exposure Draft would impact the recognition of liability for some types of levies, based on a specific fact pattern presented by one of the participants.

EFRAG CFSS noted that the changes proposed would solve some issues such as levies that are triggered by reaching a certain threshold and would be also useful in some other cases. Members also noted that the payment of the levy could in some cases be linked to an indirect benefit; for instance, the payment of the fee for the bank guarantee scheme allowed banks to offer lower rates to their depositors.

### IASB Request for Views 2015 *Agenda Consultation*

EFRAG CFSS was asked to provide its views on the EFRAG draft reply to the IASB's *Request for Views*. It also discussed how the IASB could improve the use of research efforts of other organisations, without endangering their respective independence. Some diverging views were



expressed on the priority allocated to some of the projects on the IASB research agenda as listed in the appendix to the Draft Comment Letter. Comments were provided to improve the explanation of the assessment of the priorities.

EFRAG CFSS members were invited to organise national joint outreach events on the IASB Agenda Consultation, the EFRAG Proactive Work Consultation and the relevance of IFRS and consistent application of IFRS issues in the Trustees *Review of Structure and Effectiveness*.

### IASB Research Project *Equity Method of Accounting*

EFRAG CFSS discussed a paper that summarised the IASB's tentative decisions on its project, *The Equity Method Accounting*, and the IASB staff proposals on simplifications to the equity method including the requirement to fair value identifiable assets and liabilities when acquiring an equity-accounted investment and elimination entries.

EFRAG CFSS shared similar views to those expressed by EFRAG TEG and noted that the proposals were a significant change to existing requirements which contained a mixture of consolidation and measurement principles. In some European jurisdictions, the equity method was understood to be a one-line consolidation approach, so it was normal that it would require consolidation procedures. Overall, EFRAG CFSS members thought it important to explore first what the equity method aimed to portray and what information it aimed to provide to users of financial statements. It also reaffirmed its previous positions that there was no need to challenge the use of the equity method.

### IASB Research Project *Pollutant Pricing Mechanisms*

Most EFRAG CFSS members agreed that an entity receiving allowances for free should recognise an asset and a corresponding liability, as the entity has no practical ability to return the received allowance or to reduce its pollution levels.

EFRAG CFSS noted there was an economic link between the asset-allowance and the corresponding liability. In addition, both were to be measured at the same basis and current value was considered best to do this.

As production goes on, the entity records how much it pollutes and decreases the liability accordingly. However, issues still to be resolved are how the initial liability should be determined and how the accounting would be done over several periods.