



November 2016

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.

November Publications

Draft Endorsement Advice

On 15 November, EFRAG issued its draft endorsement advice and a separate invitation to comment relating to the endorsement for use in the EU of *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)*. Comments are requested by 13 December 2016.

For more details, please see the [EFRAG website](#).

Final Comment Letter

On 9 November, EFRAG issued its final comment letter on the IASB's Exposure Draft *Definition of a Business and Accounting for Previously Held Interests*.

For more details, please see the [EFRAG website](#).

Questionnaire

On 7 November, EFRAG issued a questionnaire on the endorsement of IFRS 16 *Leases*. EFRAG is seeking the views of users in addition to the questions in the EFRAG Preliminary Consultation Document. Comments are requested by 8 December 2016.

For more details, please see the [EFRAG website](#)

Feedback statement

On 24 November, EFRAG issued a Feedback Statement summarising the input received in response to EFRAG's draft comment letter on the IASB Exposure Draft ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests*.

For more details, please see the [EFRAG website](#).

November 2016 meetings

This edition of the EFRAG Update contains summaries of meetings held in November by:

- The EFRAG Board;
- The EFRAG Technical Expert Group (EFRAG TEG); and
- The EFRAG Consultative Forum of Standard Setters (EFRAG CFSS).

Detailed meeting reports

EFRAG Board meeting on 10 November

The EFRAG Board met on 10 November and discussed the following:

- IASB Exposure Draft ED/2015/11 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)*;
- IASB Project *Insurance Contracts*; and
- EFRAG Work Plan.

IASB Exposure Draft ED/2015/11 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)*

The EFRAG Board agreed that the Draft Endorsement Advice should communicate the following tentative positions:

- The Amendments meet the endorsement criteria; and
- The Amendments address many of the in EFRAG's final endorsement advice on IFRS 9 but do not address the cost concerns of entities undertaking insurance activities that are not predominant insurers.

The EFRAG Board made other drafting amendments and approved the draft endorsement advice to be issued for public comment.

IASB Project *Insurance Contracts*

The EFRAG Board received a briefing from the European insurance companies that participated in the IASB's field test of the forthcoming insurance contracts Standards. No decisions were taken at the meeting.

EFRAG Work Plan

The EFRAG Board approved the work plan as presented.

EFRAG Board – November written procedures

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

- EFRAG's Final Comment Letter on IASB Exposure Draft ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests*.

EFRAG TEG meeting on 24 November

At its meeting on 24 November, EFRAG TEG discussed:

- IASB Publication *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*
- IASB Exposure Draft ED/2016/01 *Definition of a Business and Accounting for Previously Held Interests*
- IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*
- IASB Project *Rate-regulated Activities*
- IASB Research Project *Dynamic Risk Management*

IASB Publication *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*

EFRAG TEG considered the feedback received in response to EFRAG's draft endorsement advice. Considering the support received from constituents for the initial assessment, EFRAG TEG unanimously agreed to recommend a final endorsement advice to the EFRAG Board that supports the adoption of the Amendments.

IASB Exposure Draft ED/2016/01 *Definition of a Business and Accounting for Previously Held Interests*

EFRAG TEG unanimously approved a feedback statement summarising the input received on EFRAG's comment letter in response to the IASB Exposure Draft and how these comments were considered by EFRAG in finalising its comment letter to the IASB.

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

EFRAG TEG considered the decisions made by the IASB in October 2016 in relation to the project on the Conceptual Framework. In particular, EFRAG TEG discussed some concerns expressed by a European standard setter on how the Conceptual Framework would deal with prudence following the IASB's tentative decisions. EFRAG TEG was asked to consider whether EFRAG should join with the European standard setter in question in writing to the IASB to highlight these concerns.

EFRAG TEG noted that EFRAG's comment letter on the IASB Exposure Draft included suggestions on how to incorporate prudence into a revised Conceptual Framework. EFRAG TEG therefore considered that the IASB is already aware of EFRAG's views on this matter and did not see any need to reiterate previous comments.

IASB Project *Rate-regulated Activities*

EFRAG TEG considered a paper that reported the findings of research on the effects of defined rate regulation reported by Portuguese companies in their IFRS consolidated financial statements.

EFRAG TEG members noted that the research indicated that some companies subject to the type of rate regulation that the IASB was trying to address were accounting for regulatory adjustments under existing IFRS. Some EFRAG TEG members suggested exploring the interaction of IFRIC 12 *Service Concession Agreements* with the rate regulation system in Portugal and whether any activities being accounted for under IFRIC 12 have similarities to defined rate regulation.

Several EFRAG TEG members noted that it was not clear whether certain forms of rate regulation in their jurisdictions would be within the scope of the IASB Project.

IASB Research Project *Dynamic Risk Management*

EFRAG TEG unanimously approved to move forward and present the results of the outreach to EFRAG Board for its approval and subsequent publication.

EFRAG TEG and EFRAG CFSS meeting on 23 November

At its meeting on 23 November, EFRAG TEG and EFRAG CFSS discussed:

- IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*
- IASB Project Post Implementation Review of IFRS 13 *Fair Value Measurement*
- IASB Research Project *Disclosure Initiative*
- IASB Research Project *Financial Instruments with Characteristics of Equity*
- IASB Research Project *Rate-regulated Activities*
- UK FRC Discussion Paper *Improving the Statement of Cash Flows*
- AASB paper on Country-by-Country Reporting
- AASB paper on Digital Currencies

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

EFRAG CFSS and EFRAG TEG discussed the IASB's tentative decisions on the concepts that support the liability definitions. There was general support for the direction of the IASB's tentative decisions although some members expressed concerns about specific aspects of the IASB's tentative decisions.

EFRAG CFSS and EFRAG TEG members did not support a proposal from the IASB staff to carry forward into the revised Conceptual Framework the material in the existing Conceptual Framework on capital and capital maintenance. Some members considered that the IASB should update the exiting material or, if this not feasible at this stage, remove it pending a future update.

IASB Project *Post-implementation review of IFRS 13 Fair Value Measurement*

EFRAG CFSS and EFRAG TEG received an update on the post-implementation review (PIR) of IFRS 13 *Fair Value Measurement*, including a summary of the IASB Staff's findings during its outreach.

EFRAG CFSS and EFRAG TEG agreed that the PIR of IFRS 13 should consider, at a minimum:

- The unit of account;
- The distinction between Level 1 and Level 2;
- The fair value of liabilities with a demand feature;
- Disclosures – including the relevance of some Level 3 disclosures;
- Opportunities for simplifications; and
- Maintaining convergence with US GAAP to the extent possible.

IASB Research Project *Disclosure Initiative*

EFRAG CFSS and EFRAG TEG discussed recent developments in the Disclosure Initiative project, in particular the call for input from the IASB at the September ASAF meeting to identify entities that have improved the way they communicate in their financial statements as input into the IASB project on better communication.

Some EFRAG CFSS members observed that regulators in their jurisdictions had recently issued recommendations on the matter including the identification of best practices. These members confirmed that they would liaise with the IASB to share the information.

EFRAG CFSS and EFRAG TEG also discussed the expected content of the forthcoming *Principles of Disclosure* Discussion Paper. Some members expressed concerns about the expected proposal to allow incorporation by reference of information in the financial statements. These members considered that the legal and audit implications would need to be carefully considered in each jurisdiction.

Some members identified possible tensions between some of the principles of effective communication expected in the Discussion Paper, in particular that information should be presented in a way that is both 'entity-specific' and that will 'optimise comparability' between entities and across industries.

IASB Research Project *Financial Instruments with Characteristics of Equity*

EFRAG CFSS and EFRAG TEG received an update on the IASB's discussions on its research project *Financial Instruments with Characteristics Equity* and discussed outreach activities to be undertaken by the IASB.

Members noted that many stakeholders had already indicated that the IASB should not fundamentally change the classification principles in IAS 32 *Financial Instruments: Presentation* model but should instead aim to address the main difficulties encountered in its application.

Regarding outreach activities, EFRAG CFSS and EFRAG TEG members emphasised the importance of reaching out to supervisory authorities and other stakeholders with expertise in types of instrument that have been developed or become more important in the aftermath of the financial crisis. It was noted that applying IAS 32 to some of these newer types of instrument has proved challenging.

IASB Research Project *Rate-regulated Activities*

EFRAG CFSS and EFRAG TEG discussed an IASB staff paper on the core principles and features of a proposed accounting model to account for some of the effects of rate-regulation. There was broad support for the direction of the proposed model. However, a number of issues would need to be resolved as the IASB progressed with developing the model further.

Specifically, EFRAG CFSS and EFRAG TEG members noted that the reference to the entity performing 'later' or 'earlier' than the customer base was confusing and might not capture all the regulatory adjustments that the proposed model intended, for example volume variances. The model would need to explain what was meant by 'timing differences' and how these related to the regulatory adjustments the model was trying to address.

Furthermore, EFRAG CFSS and EFRAG TEG members questioned whether the regulatory adjustments referred to in the paper met the proposed definitions of assets and liabilities set in the Conceptual Framework exposure draft.

UK FRC Discussion Paper *Improving the Statement of Cash Flows*

EFRAG CFSS and EFRAG TEG received a presentation on the Discussion Paper published by the UK Financial Reporting Council on *Improving the Statement of Cash Flows*

Members generally agreed that the statement of cash flows could be improved and, in particular, supported the suggestion to better articulate the objective of the statement of cash flows. However, mixed views were expressed on some of the other proposals in the Discussion Paper.

AASB paper on *Country-by-Country Reporting*

EFRAG CFSS and EFRAG TEG discussed a paper prepared by the Australian Accounting Standards Board ('the AASB') on country-by-country reporting. The paper suggested that, given the global focus on improving the tax transparency of multinational enterprises, accounting standard-setters should take a leadership role in improving income tax disclosures for users of financial statements.

EFRAG CFSS and EFRAG TEG members noted that country-by-country reporting is currently the subject of proposed EU legislation and cautioned that any IASB initiative in this area could result in duplication. Some members also agreed that the suggestions in the AASB paper for improving the disclosures in IAS 12 *Income Taxes* could be useful for users of the financial statements. However, they observed that these suggested improvements related more to explaining the amounts determined in accordance with IAS 12 than to country-by-country reporting.

AASB paper on Digital Currencies

EFRAG CFSS and EFRAG TEG discussed a paper prepared by the AASB on digital currencies. Members generally agreed that that accounting for digital currencies could create some interpretation issues. However, there did not seem to be an urgent need for guidance on this for the time being. Members did not support for the suggestion made in the paper to address digital currencies as part of a broader project on investments in intangible assets and commodities. However, as the use of digital currencies may become more widespread, some members encouraged the IASB to monitor developments on the issue.