



September 2017

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.

EFRAG Update - Quick survey

We are reviewing the EFRAG Update. Please complete this short 10-question reader survey now and help us tailor the EFRAG Update to your needs: <http://bit.ly/2wFRqDJ>

[LAUNCH SURVEY](#)

September Publications

EFRAG call for evidence

On 19 September, EFRAG launched a reminder regarding its call for evidence from European Constituents on information about the significance of their existing investments in equity instruments and the possible effects of IFRS 9 *Financial Instruments* on their equity portfolios. Participants are invited to complete this survey by 30 September 2017.

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

Feedback reports

On 22 September, EFRAG published two reports summarising the input received at September outreach events held on the IASB's Discussion Paper DP/2017/1 *Disclosure Initiative - Principles of Disclosure*:

- joint outreach event with the Lithuanian Ministry of Finance and the Lithuanian Authority of Audit, Accounting, Property Valuation and Insolvency Management held in Vilnius on 5 September 2017. For more details, please see the [EFRAG website](#).
- joint outreach event together with the Polish Accounting Standards Committee Accountants' Association in Poland, and National Chamber of Statutory Auditors held in Warsaw on 12 September 2017. For more details, please see the [EFRAG website](#).

September 2017 meetings and conference calls

This edition of the EFRAG Update contains summaries of meetings and conference calls held in September 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 14 September

The EFRAG Board [met on 14 September](#) and discussed the following:

- IFRS 17 *Insurance Contracts*
- Consistent application of IFRS Standards
- EFRAG technical work plan

IFRS 17 Insurance Contracts

The EFRAG Board received a presentation from the CFO of Prudential providing a CFO view of IFRS 17 from a strategic perspective.

The Chairman of the IASB provided the EFRAG Board with information on IFRS 17 from the perspective of the international standard setter.

Consistent application of IFRS Standards

The EFRAG Board considered issues associated with consistency in financial reporting. The EFRAG Board decided to consider the issue further at a future meeting, including the role of regulators and auditors and the nature of the problems, if any, with consistency.

EFRAG technical work plan

The EFRAG Board approved the technical work plan, including agreeing to a shortened process for providing advice on the endorsement of the forthcoming amendments to IFRS 9 on prepayment features with negative compensation, to support the possibility of early adoption.

EFRAG Board – September written procedures

The EFRAG Board did not approve any documents in September by written procedure.

EFRAG Board – Expected October written procedures

The EFRAG Board is expected to approve the following documents using written procedures in October:

- EFRAG's Draft Comment Letter on IASB ED/2017/6 *Definition of Material - Proposed amendments to IAS 1 and IAS 8*

- EFRAG’s Draft Endorsement Advice on *ED/2017/3 Prepayment Features with Negative Compensation (proposed amendments to IFRS 9)*
- EFRAG’s Draft Comment Letter on IASB ED/2017/5 *Accounting Policies and Accounting Estimates (Proposed Amendments to IAS 8)*

EFRAG CFSS and EFRAG TEG meeting on 20 September

At its [meeting on 20 September](#), EFRAG CFSS and EFRAG TEG discussed:

- IASB Exposure Draft ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests (Proposed amendments to IFRS 3 and IFRS 11)*
- IASB Project *Post-Implementation Review IFRS 13 - Fair Value Measurement*
- IASB Research Project *Primary Financial Statements*
- IASB Project *Rate-regulated Activities*
- IASB Research Project *Goodwill and Impairment*
- EFRAG Research Project *Equity Instruments – Impairment and Recycling*
- European Single Reporting Format

IASB Exposure Draft ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests (Proposed amendments to IFRS 3 and IFRS 11)*

EFRAG TEG and EFRAG CFSS discussed the tentative decisions made by the IASB at its meetings in April and June 2017.

EFRAG TEG and EFRAG CFSS generally agreed with the IASB’s proposals except regarding the optional screening test for which mixed views were expressed. Members appreciated the attempt to simplify the requirements but some noted that making the screening test optional could lead to opportunistic decisions by preparers. Further, some members regretted the absence of convergence with the FASB model (in which the screening test is mandatory).

IASB Project *Post-Implementation Review IFRS 13 - Fair Value Measurement*

EFRAG TEG and EFRAG CFSS discussed the summary of feedback received from EFRAG’s consultation and suggested some drafting improvements. The summary of feedback received is to be approved by EFRAG TEG at its 21 September meeting (see below).

IASB Research Project *Primary Financial Statements*

EFRAG TEG and EFRAG CFSS welcomed the findings of, and related feedback on, the UK Financial Reporting Council Discussion Paper *Improving the Statement of Cash Flows*. They also considered that the IASB should take the opportunity to consider improvements to the statement of cash flows more comprehensively. Some members added that further research work could be done on having a statement of cash flows statement that is structured differently for financial institutions to ensure that it provides relevant information to users and mentioned EFRAG’s Discussion Paper issued in 2015.

Members considered that the results of a New Zealand study on the views of investors about the usefulness of alternative performance measures (APMs) were generally consistent with the views expressed by European users in different outreach events. Some members considered that the principles in the ESMA Guidelines on APMs could be extended to those presented within the financial statements to increase transparency on their use.

IASB Project *Rate-regulated Activities*

EFRAG TEG and EFRAG CFSS discussed a number of measurement aspects for regulatory assets to be considered in the accounting model for rate-regulated activities being developed by the IASB. Members expressed mixed views on whether the time value of money should be considered in the measurement of regulatory assets as this might not provide relevant information for users of financial statements.

EFRAG TEG and EFRAG CFSS were informed of a forthcoming request for information planned by the EFRAG Secretariat to gather information about European regulatory legislation and the associated regulatory frameworks in the European Union that might fall within the scope of the IASB's project.

IASB Research Project *Goodwill and Impairment*

EFRAG TEG and EFRAG CFSS discussed two of the IASB Staff proposals aimed to simplify and improve the effectiveness of the goodwill impairment testing model.

EFRAG TEG and CFSS members generally did not support the proposal to develop a 'pre-acquisition headroom' approach as a means to mitigate the so-called shielding effect created by unrecognised pre-acquisition goodwill. This created an additional layer and would add complexity to the impairment test and cast doubt about whether it would add effectiveness. It was also not clear how the approach would work for CGU's created through multiple business combinations and address changes in the shielding effect after the date of the business combination.

EFRAG TEG and CFSS members expressed mixed views on whether recoverable amount should be based on a single method approach. Some members supported having both as they served different purposes. Some members supported VIU as the only approach and others supported fair value as the only approach. Most members agreed that, if VIU is the only approach, it should be changed to include cash flow projections based on management's budgets/forecasts, including the effects of planned future restructuring.

EFRAG Research Project *Equity Instruments – Impairment and Recycling*

EFRAG CFSS and EFRAG TEG discussed certain aspects of EFRAG's research project including details of a 'modified IAS 39' impairment approach for equity instruments. Mixed views were expressed in reference to the use of absolute presumptions based on thresholds for identifying impairment of equity instruments. EFRAG CFSS and EFRAG TEG also discussed the significance of an impairment model to the re-introduction of recycling of disposal gains.

European Single Electronic Format

ESMA staff provided EFRAG CFSS and EFRAG TEG with an update on the project and the proposed next steps to introduce the European Single Electronic Format.

EFRAG TEG meeting on 21 September

At its [meeting on 21 September](#), EFRAG TEG discussed:

- IFRS 17 *Insurance Contracts*
- IASB ED/2017/3 *Prepayment Features with Negative Compensation (proposed amendments to IFRS 9)*
- IASB ED/2017/5 *Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)*
- IASB ED/2017/6 *Definition of Material - Proposed amendments to IAS 1 and IAS 8*
- IASB DP/2017/1 *Disclosure Initiative – Principles of Disclosure*
- IASB Project *Post-Implementation Review IFRS 13 – Fair Value Measurement*
- IASB Research Project *Financial Instruments with Characteristics of Equity*
- EFRAG Research Activities: Looking ahead

IFRS 17 Insurance Contracts

EFRAG TEG discussed specific questions addressed to them relating to Appendix II of the forthcoming draft endorsement advice on IFRS 17 *Insurance Contracts*. Revised Appendix II will be discussed at a future meeting.

No decisions were taken at the meeting.

IASB ED/2017/3 Prepayment Features with Negative Compensation (proposed amendments to IFRS 9)

EFRAG TEG discussed a first draft of Appendices I and II of the draft endorsement advice on the forthcoming amendments to IFRS 9 and suggested some improvements.

No decisions were taken at the meeting.

IASB ED/2017/5 Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)

EFRAG TEG agreed to recommend a draft comment letter for approval by the EFRAG Board subject to drafting improvements. Members generally agreed with the proposed amendments although some members considered that the issues are too broad to be addressed by the limited clarifications proposed. Overall members noted that the proposed changes could be helpful.

IASB ED/2017/6 Definition of Material - Proposed amendments to IAS 1 and IAS 8

EFRAG TEG agreed to recommend a draft comment letter for approval by the EFRAG Board subject to drafting improvements.

In the letter recommended by EFRAG TEG, EFRAG suggests removing the references to 'omitting, misstating or obscuring' from the definition of 'material' and defining material information more simply and directly as information that can reasonably be expected to, individually or collectively, influence the economic decisions that the primary users of financial statements make. EFRAG TEG members agreed that it is important that material information is not omitted, misstated or obscured but considered that these matters should be addressed separately from the definition.

IASB DP/2017/1 Disclosure Initiative – Principles of Disclosure

EFRAG TEG agreed to recommend a final comment letter for approval by the EFRAG Board subject to drafting improvements. Main drafting changes related to the characterisation of the disclosure problem and the role of the IASB, the use of non-IFRS information and the consideration of technology.

In the letter recommended by EFRAG TEG, EFRAG agrees that the disclosure problem is multifaceted and includes behavioural aspects. Further, EFRAG considers that, in the next steps of the project, due consideration should be given by the IASB to addressing the disclosure overload issue by initiating, as a matter of priority, a comprehensive standard-level review of existing disclosure requirements.

IASB Project Post-Implementation Review IFRS 13 – Fair Value Measurement

EFRAG TEG members approved a letter to the IASB summarising the feedback received from constituents on the Post-Implementation Review of IFRS 13 in response to the IASB's Request for Views. The key areas of IFRS 13 on which constituents provide input included inconsistencies

in the level of detail provided and the valuation of quoted investments (PxQ issue).

IASB Research Project *Financial Instruments with Characteristics of Equity*

EFRAG TEG discussed how the Gamma approach addresses the issues that arise in practice and the classification outcomes for certain financial instruments under the Gamma approach and IAS 32 *Financial Instruments: Presentation*.

At the meeting, EFRAG TEG highlighted that the Gamma approach introduced new terminologies, such as “solely dependent on the residual amount”, and thought that these new terminologies should be clarified in the future discussion paper. EFRAG TEG also considered that the interaction between ‘contractual rights and obligations’ and ‘regulatory and legal’ requirements was fundamental and that more clarity was needed, particularly when considering areas such as bail-in instruments and mandatory tender offers.

EFRAG TEG noted that the Gamma approach was likely to increase the complexity in accounting for financial instruments with characteristics of equity and questioned the value from a cost-benefit perspective.

No decisions were taken at the meeting.

EFRAG Research Activities: Looking ahead

EFRAG TEG were asked to provide suggestions on topics for future Research activities. Members agreed that Variable and Contingent Payments should be a candidate. They also expressed interest in a broad-based project on intangible assets. The general objective of such a project would be first to assess whether there is an information gap in financial statements in relation to intangibles and second, if such a gap exists, whether and how it could be addressed effectively.

Members also suggested to consider the equity method of accounting and earnings per share as potential topics.

No decisions were taken at the meeting.