

March 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.

March Publications

Endorsement Advice

EFRAG's final advice to the European Commission on endorsement of IFRS 15 *Revenue from Contracts with Customers* was published on 18 March 2015, recommending its use in the European Union and European Economic Area. For more details, please see the [EFRAG website](#).

Draft Comment letter

EFRAG published its draft comment letter in response to the IASB Exposure Draft *Classification of Liabilities — Proposed Amendments to IAS 1* on 24 March 2015. Comments are sought by 3 June 2015. For more details, please see the [EFRAG website](#).

Feedback Statement

EFRAG published its feedback statement, summarising responses received to its draft comment letter on the IASB's Exposure Draft *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*, on 20 March 2015. For more details, please see the [EFRAG website](#).

EFRAG published its feedback statement on 31 March 2015, summarising the main messages from respondents to EFRAG's Discussion Paper *Classification of Claims*, which discusses the credit side of the balance sheet and the classification of the claims on an entity. For more details, please see the [EFRAG website](#).

March 2015 meetings

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

- EFRAG [Board](#)
- EFRAG [Technical Expert Group \(EFRAG TEG\)](#)
- EFRAG [Consultative Forum of Standard Setters \(EFRAG CFSS\)](#)

Detailed meeting reports

EFRAG Board – 11 March meeting

The EFRAG Board met on 11 March and discussed the following:

- Preparation for the March *Accounting Standards Advisory Forum* meeting
- IASB Project *Leases*
- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 9 *Financial Instruments*
- The EFRAG *Work Plan*

Preparation for the March ASAF meeting

The EFRAG Board discussed the following topics in preparation for the ASAF meeting:

- IFRS 15 *Revenue from Contracts with Customers* — issues identified by the Transition Resource Group on Revenue Recognition (TRG).

The EFRAG Board deemed it critical that the IASB guidance and the FASB guidance should not trigger different outcomes. It suggested that the best way to make the TRG's analysis and conclusion public, would be to adopt a similar process as to how IFRS IC agenda decisions are taken, so that some due process is respected.

- Effects analysis for the *Leases* project.

The EFRAG Board discussed the proposed content of the IASB's effects analysis, suggesting that it should also cover the potential impact on SMEs' access to finance and the leasing industry, and include a comparison of the IASB and FASB models. EFRAG Board also asked EFRAG staff to collect quantitative data on the potential impact of lease recognition on loan financial covenants, and to conduct a survey among users on the presentation of lease liabilities under the two models.

IASB Project *Leases*

The EFRAG Board discussed the impact of the forthcoming lease standard in relation to the presentation of lease liabilities under IFRS and US GAAP.

IFRS 15 *Revenue from Contracts with Customers*

The EFRAG Board finalised EFRAG's Endorsement Advice to the European Commission, recommending that IFRS 15 *Revenue from Contracts with Customers* should be adopted in the EU, with the effective date as determined by the IASB.

IFRS 9 *Financial Instruments*

The EFRAG Board continued its planned series of discussions on developing its draft endorsement advice, discussing in particular the cover letter, appendix 2 (the assessment against technical endorsement criteria and whether IFRS 9 leads to prudent accounting), and appendix 3 (the assessment of whether IFRS 9 would be conducive to the European public good). The EFRAG Board also discussed the potential impact on issuer and investor behaviours. The EFRAG Board will continue the discussion in a conference call on 9 April and will consider the draft endorsement advice for approval at its meeting of 22 April.

The EFRAG Board agreed that EFRAG should ask the IASB to identify the best solution to the concerns put forward by the insurance industry, relating to the forthcoming standard on insurance contracts. The EFRAG Board invited the insurance industry to provide quantitative data on the categories and amounts of assets that would need to be reclassified and accounting mismatches that might arise when IFRS 9 is first implemented.

EFRAG *Work Plan*

The EFRAG Board decided that the amendments to IFRS 15 *Revenue from Contracts with Customers* should be subject to EFRAG Board discussion, rather than approval by written procedure.

Nomination of EFRAG President

The EFRAG Board welcomed the news of the European Commission's nomination of Wolf Klinz as President of the EFRAG Board. The consultation with the European Parliament and the Council of Europe takes place in the coming weeks. Thereafter, the EFRAG General Assembly will be asked to approve the appointment.

EFRAG Board – March written procedures

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

- EFRAG's draft comment letter in response to the IASB Exposure Draft *Classification of Liabilities (Proposed amendments to IAS 1)*.
- EFRAG's draft comment letter in response to the IASB Exposure Draft *Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2)*.

EFRAG Board – Expected April written procedures

During April, the EFRAG Board is expected to approve the following document using written procedures:

- EFRAG final comment letter in response to the IASB's Exposure Draft *Disclosure Initiative (Amendments to IAS 7)*.

EFRAG TEG Conference Call – 10 March

EFRAG TEG held a conference call on 10 March to discuss the IASB's latest decisions on IFRS 15 *Revenue from Contracts with Customers* and to prepare for the March ASAF meeting.

EFRAG TEG discussed the clarifications that the IASB intends to include in the application guidance on licences and the possible deferral of the effective date of IFRS 15.

EFRAG TEG recommended the position that EFRAG should take at the March 2015 ASAF meeting, where several questions relating to the clarifications on revenue recognition would be posed to participants. No decisions were taken.

EFRAG TEG Conference Call – 20 March

EFRAG TEG held a conference call on 20 March to discuss:

- IASB Exposure Draft *Classification and Measurement of Share-based Payment Transactions (proposed amendments to IFRS 2)*.
- IASB Exposure Draft *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value (amendments to IFRS 13)*.
- IFRS 9 *Financial Instruments*.

Details of the discussions are summarised below.

Exposure Draft Classification and Measurement of Share-based Payment Transactions (proposed amendments to IFRS 2)

EFRAG TEG discussed the feedback received from constituents in response to its draft comment letter and agreed to recommend a final comment letter to the EFRAG Board, subject to drafting improvements. The final comment letter was approved by the EFRAG Board on 27 March, through the written procedure.

IASB Exposure Draft Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value

EFRAG TEG approved a feedback statement relating to EFRAG's final comment letter on the Exposure Draft *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*.

IFRS 9 Financial Instruments

EFRAG TEG discussed how the draft endorsement advice should address the comments made in the draft dissenting opinion from one TEG member. No decisions were taken.

EFRAG Technical Expert Group (TEG) Meeting 1-2 April

EFRAG TEG met on 1- 2 April and discussed:

- IFRS 9 *Financial Instruments*
- IASB Discussion Paper *Reporting the Financial Effects of Rate Regulation*
- IASB Project *Disclosure Initiative*
- IASB Research Project *Equity Method of Accounting*
- IASB Project *Insurance Contracts*
- IASB Project *Conceptual Framework*
- IFRS Interpretations Committee Topics
- EFRAG/ ICAC/ OIC/ RJ Discussion Paper *Separate Financial Statements*

IFRS 9 *Financial Instruments*

EFRAG TEG discussed the preliminary results of the survey performed as a follow-up to the field test on IFRS 9 and noted that most of the messages received from the survey were already reflected in the draft endorsement advice that had been recommended to the EFRAG Board. EFRAG TEG also noted that none of the participants in the follow-up survey opposed the endorsement of IFRS 9. There was a general understanding that it was difficult for entities to provide a quantitative assessment of IFRS 9 prior to implementation of the standard and EFRAG TEG recommended to the EFRAG Board to include in the draft endorsement advice a specific request that the post-implementation review of IFRS 9 should be performed at the earliest possible date, after the application of IFRS 9.

EFRAG TEG also discussed a proposal on the inter-relationship between IFRS 9 and the forthcoming insurance contracts standard to be included in the IFRS 9 draft endorsement advice. There was general agreement that the advice given to the EFRAG Board needed to clarify the nature and extent of a deferral of IFRS 9 for the insurance industry, until the forthcoming insurance contracts standard is completed, taking into account the scope, benefits and drawbacks of such a deferral. EFRAG TEG also agreed that, in its view, any deferral solution should be taken at the IASB level, rather than the European level, and to advise the EFRAG Board to request that the IASB consider the deferral of IFRS 9 for the insurance industry, until the forthcoming insurance contracts standard is completed.

IASB Discussion Paper *Reporting the Financial Effects of Rate Regulation*

EFRAG TEG considered feedback received in response to the IASB's Discussion Paper *Reporting the Financial Effects of Rate Regulation*.

Respondents broadly supported EFRAG's tentative positions on the direction of the discussion paper. In addition, many respondents highlighted that the rate-setting mechanism (which created enforceable rights and obligations) included an adjusting mechanism based on the revenue requirement, as described in the discussion paper, and therefore played an important role in the scoping of the project and in any future accounting guidance on rate-regulated activities.

A feedback statement was approved for publication.

IASB Project *Disclosure Initiative*

EFRAG TEG received an update on current developments in the IASB project, including the recent tentative decisions made by the IASB on non-IFRS information and the role of financial statements. EFRAG TEG members also discussed an issues paper on the forthcoming Exposure Draft Practice Statement *Application of Materiality to Financial Statements*. They agreed that further non-authoritative guidance on the application of materiality to financial statements would be helpful to foster the exercise of judgement, but believed that, to be really useful, the guidance should be drafted in a more concise and practical way, focus more on the qualitative aspects of materiality and include illustrative examples.

No decisions were taken.

IASB Research Project *Equity Method of Accounting*

EFRAG TEG received an update on the status of the IASB's research project *Equity Method of Accounting*, including a summary of the feedback received by the IASB at the March 2015 ASAF meeting and other outreach meetings undertaken by the IASB in 2014. In those meetings, the IASB sought advice on the scope and possible approaches to its research project. EFRAG TEG members considered that it would be useful to have a discussion on the application issues related to the equity method of accounting, at a future meeting.

IASB Project *Insurance Contracts*

EFRAG TEG received an update on the IASB March re-deliberations relating to insurance contracts that provide policyholders with investment returns, and the views from the EFRAG Insurance Accounting Working Group (IAWG) that had met prior to the IASB meeting. EFRAG TEG was also provided with feedback from the EFRAG IAWG on the treatment of contracts that are onerous at inception, for both participating and non-participating contracts, as discussed at its meeting on 17 March 2015.

No decisions were taken.

IASB Project *Conceptual Framework*

At its April 2015 meeting, EFRAG TEG continued its discussion on the concepts to be considered when deciding whether an item should be reported in *profit or loss* or in *other comprehensive income* (OCI). In addition, EFRAG TEG considered some of its responses to the forthcoming Exposure Draft on the *Conceptual Framework*.

IFRS *Interpretations Committee Topics*

EFRAG TEG received an update on the status of topics on the current agenda of the IFRS Interpretations Committee, including items for which a recommendation has already been made to the IASB. EFRAG TEG was asked whether they would like to discuss these topics at a future EFRAG TEG meeting.

EFRAG TEG agreed to discuss some of the topics at the next EFRAG TEG meeting.

EFRAG/ICAC/OIC/RJ Discussion Paper *Separate Financial Statements*

EFRAG TEG members discussed and approved for publication a feedback statement summarising the main comments received on the Discussion Paper *Separate Financial Statements*, published in September 2014, by EFRAG, in conjunction with the Spanish Instituto de Contabilidad y Auditoría de Cuentas (ICAC), the Italian Organismo Italiano di Contabilità (OIC) and the Dutch Raad voor de Jaarverslaggeving (RJ). In the Discussion Paper, the authors considered how financial statements of a parent or investor are being used in Europe, analysed the financial reporting issues related to separate financial statements under IFRS, and proposed solutions to the issues identified.

EFRAG/OIC/ASBJ Research Project on *Goodwill*

EFRAG staff presented two papers; one to illustrate the topics that the Research Group plans to address in the second phase of the project on goodwill impairment and amortisation, and the other to discuss when an entity should be required to perform a quantitative impairment test, if annual amortisation of goodwill was reintroduced.

EFRAG TEG members noted that any proposal should be based on the objective of improving the information received by users on the actual performance of the business acquired.

EFRAG TEG members also noted that, when discussing the impairment test, the first step should be to clarify the overall objective of the impairment — is it to provide information on whether the performance of the acquired business is in line with the original expectations at the acquisition date, or on whether the entity expects to recover the carrying amount of the goodwill through the future cash flows? Only after investigating this, should the Research Group look into the details of the test.

While acknowledging that one of the problems is that the impairment test is not applied rigorously, the majority of EFRAG TEG members supported the notion that entities should not be required to perform a quantitative impairment test when an impairment loss is quite unlikely. A qualitative assessment based on the indicators in IAS 36 *Impairment of Assets*, or on other indicators more specific for goodwill, could be used to identify those circumstances when a quantitative impairment test would not be needed.

EFRAG Short Discussion Series Paper *Levies: what would have to be changed in IFRS for a different accounting outcome?*

EFRAG TEG discussed how amending IAS 34 *Interim Financial Reporting* would provide a solution to the concerns expressed by some European constituents regarding IFRIC 21 *Levies*. EFRAG TEG concluded that a more comprehensive approach to the accounting for levies should be pursued rather than amending IAS 34.

EFRAG's future proactive activities

EFRAG staff presented a paper to discuss the process of identifying topics for future proactive activities and some tentative proactive topics. EFRAG TEG members emphasised that research activities should aim to influence the IASB's standard-setting activities. Therefore, attention should be focused on the IASB research agenda.

EFRAG TEG discussed the content of a paper to assess areas where the upcoming Exposure Draft on the *Conceptual Framework* may not provide sufficient discipline for the future choices in standards, and expressed support to explore a project on transactions with government authorities and treatment of put options on non-controlling interests.

EFRAG Consultative Forum of Standard Setters (CFSS)

EFRAG CFSS met on 19 March to prepare for the March 2015 ASAF meeting and discussed the following:

- IFRS 3 *Post-implementation Review*
- IASB Project *Revenue from Contracts with Customers*
- IASB Project *Conceptual Framework*
- IASB Project *Leases*
- IASB Project *Disclosure Initiative*
- IASB Research Project *Financial Instruments with Characteristics of Equity*
- IASB Research Project *Business Combinations under Common Control*
- IASB Research Project *Equity Method of Accounting*

IFRS 3 *Post-implementation Review*

EFRAG CFSS considered the findings and next steps regarding the IASB's *Post-implementation Review* of IFRS 3 *Business Combinations* and provided feedback on a number of items that would be discussed at the March 2015 ASAF meeting. EFRAG CFSS members agreed that the topics identified by the IASB were important practice issues, and identified a number of additional issues, reported to the IASB during the review stage, that the IASB should consider in the follow-up phase.

IASB Project *Revenue from Contracts with Customers*

EFRAG CFSS members received an update on the IASB's latest decisions to propose amendments to IFRS 15 *Revenue from Contracts with Customers*. EFRAG CFSS members provided their views on several questions related to the proposed amendments that would be discussed at the ASAF meeting.

IASB Project *Conceptual Framework*

EFRAG CFSS members discussed a proposal on how to distinguish between other comprehensive income and profit or loss. Members discussed papers prepared by the Accounting Standards Board of Japan (ASBJ) for the March 2015 ASAF meeting. The papers prepared by the ASBJ dealt with how to categorise and select between different measurement bases. EFRAG CFSS members generally welcomed the papers, but did not hold a uniform view on how items should be measured in the statement of profit or loss.

IASB Project *Leases*

EFRAG CFSS members received an update on the IASB's latest decisions on the *Leases* project, following completed re-deliberations. EFRAG CFSS members discussed the exemption for small leases. While there was appreciation for the IASB's effort to lessen the burden of application for preparers, EFRAG CFSS members noted that the exemption would have to be drafted carefully and that it should not be perceived to set a bright-line quantitative threshold. EFRAG CFSS members were also updated on the topics that the IASB proposes to cover in its effects analysis.

IASB Project *Disclosure Initiative*

EFRAG CFSS members discussed various aspects of the project, including the role of financial statements that exclude the notes, and the forthcoming Exposure Draft *Practice Statement – Application of Materiality to Financial Statements*.

EFRAG CFSS members agreed that additional, non-authoritative guidance on materiality might be helpful. However, they did not believe that the guidance should be included in a practice statement, but rather in the accompanying implementation guidance to the forthcoming standard on disclosure and be subject to a due process. EFRAG CFSS members also considered that the qualitative aspects of materiality assessment were the biggest issues to be addressed.

The IASB proposes clarifying the use of the terms, *disclose* and *present*, and which financial statements should be characterised as 'primary'. EFRAG CFSS members were not persuaded that these issues create significant problems.

IASB Research Project *Financial Instruments with Characteristics of Equity*

EFRAG CFSS members received an update on the IASB's research project and discussed how classification, presentation and disclosure of claims could be improved. More specifically, EFRAG CFSS members discussed the objective of classification, what should drive the definition of a liability and whether the IASB should retain a binary classification model. Although no decisions were taken, some EFRAG CFSS members questioned whether the introduction of a third element would solve the existing issues and referred to the related risks of introducing further complexity and changes to current practice.

IASB Research Project *Business Combinations under Common Control (BCUCC)*

EFRAG CFSS considered four scenarios addressing BCUCC. EFRAG CFSS members generally agreed that guidance on accounting for BCUCC was needed. Some EFRAG CFSS members expressed the view that acquisition accounting should be used when a BCUCC transaction affected non-controlling interests.

IASB Research Project *Equity Method of Accounting*

EFRAG CFSS members discussed the IASB's project *Equity Method of Accounting* and agreed to support the IASB's effort to address the problems arising in practice. Nonetheless, EFRAG CFSS agreed that there was no need for a complete overhaul of how investments in associates and joint ventures should be accounted for, and that users regarded the equity method of accounting as a relevant measurement basis for investees.

EFRAG CFSS members also considered that the existing boundary of the group was well accepted in Europe, that the business model in which the associate/joint venture was held could have a role in how the equity method was applied, and that the definition of significant influence was an issue that warranted to be addressed. Finally, when referring to the application of the equity method in separate financial statements, there was agreement that the IASB should review the equity method applied to subsidiaries, taking into account the objective and users of separate financial statements.