



February 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.

### February Publications

#### **Draft Endorsement Advices**

On 6 February, EFRAG published its Draft Endorsement Advice on the IASB Publication *Annual Improvement to IFRS Standards 2014-2016 Cycle*. Comments are requested by 17 March 2017.

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

On 14 February, EFRAG published its Draft Endorsement Advice on IFRS 16 *Leases*. Comments are requested by 13 March 2017.

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

On 17 February, EFRAG published its Draft Endorsement Advice on IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*. Comments are requested by 17 March 2017.

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

On 21 February, EFRAG published its Draft Endorsement Advice on the IASB Publication *Transfers of Investment Property (Amendments to IAS 40)*. Comments are requested by 20 March 2017.

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

#### **Draft Comment Letter**

On 2 February, EFRAG published its draft comment letter in response to the IASB Exposure Draft ED/2017/1 *Annual Improvements to IFRS Standards 2015-2017 Cycle*. Comments are requested by 3 April 2017.

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

#### **Economic study**

On 22 February, EFRAG published a study by an independent economic consultancy commissioned to provide input to the endorsement advice on IFRS 16 *Leases*. EFRAG's Draft Endorsement Advice, which is open for comment until 13 March 2017, includes various references to this study.

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

## February 2017 meetings

This edition of the EFRAG Update contains summaries of meetings and conference calls held in February 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 7 February

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The EFRAG Board [met on 7 February](#) and discussed the following:

- IFRS 16 *Leases*
- EFRAG technical work plan

#### IFRS 16 *Leases*

The EFRAG Board made a number of changes to the proposed draft endorsement advice in order to:

- Refer to more of the findings in the economic study commissioned by EFRAG and clarify how that input has informed EFRAG's initial assessment;
- Include a detailed summary of the assessment made on European Public Good (at the beginning of Appendix 3);
- Acknowledge that certain of the requirements in IFRS 16 may result in additional complexity (e.g. determination of lease term and discount rate) and the effects of that complexity on costs; and
- Clarify some of the questions to constituents.

The EFRAG Board approved the draft endorsement advice for issue for comment until 13 March 2017 subject to the above improvements.

The EFRAG Board plans to consider comments at the meeting of the EFRAG Board on 22 March with a view to providing its final advice to the European Commission shortly thereafter.

#### EFRAG technical work plan

The EFRAG Board approved the technical work plan as presented.

### EFRAG Board – February written procedures

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The EFRAG Board approved the following documents by written procedure:

- EFRAG's Draft Endorsement Advice on IASB Publication *Annual Improvements to IFRS Standards 2014-2016 Cycle*
- EFRAG's Draft Endorsement Advice on IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
- EFRAG's Draft Endorsement Advice on the IASB Publication *Transfers of Investment Property (Amendments to IAS 40)*

- EFRAG's Draft Comment Letter on the IASB Publication *Annual Improvements to IFRS Standards 2015-2017 Cycle*

## EFRAG Board – Expected March written procedures

No documents are expected to be approved by the EFRAG Board by written procedure in March.

## EFRAG TEG meeting on 23 February

At its [meeting on 23 February](#), EFRAG TEG discussed:

- IASB Project *Insurance Contracts*
- IASB Research Project *Financial Instruments with Characteristics of Equity*
- EFRAG Research Project *Transactions other than Exchanges of Equal Value*
- EFRAG Research Project *Pensions*

### *IASB Project Insurance Contracts*

EFRAG TEG discussed on an example designed to illustrate the IASB's decisions on the Variable Fee Approach in the future insurance contracts Standard. In particular, EFRAG TEG discussed the scope of Variable Fee Approach, the discount rate to be used in measuring the insurance liability, the impact of options and guarantees, the use of the term 'mutualisation' and its impact on the model, the consequences of duration mismatches and the how expected credit losses might affect the application of the model and its results.

No decisions were taken at the meeting.

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

EFRAG TEG received an update on the IASB's discussions on its research project *Financial Instruments with Characteristics of Equity* ('FICE') project and discussed the illustrative examples developed by the EFRAG Secretariat. The discussion focused on the impacts of the IASB's so-called Gamma approach on the statement of financial performance and statement of financial position.

EFRAG TEG members considered that it was important to retain the exception for puttable instruments because the concerns that led to its development appeared to remain relevant under the Gamma approach.

Members also highlighted the importance of addressing the issues that currently arise with written puts on own equity, including written puts on non-controlling interests.

Members also noted that the FICE project had not considered various measurement issues, including existing issues (e.g. how to take account of uncertainty when measuring liabilities arising from contingent settlement provisions) and new issues that may arise as a result of the Gamma approach (e.g. how to measure liabilities for which settlement is mandatory only on liquidation).

Finally, some members considered that the interaction between 'contractual rights and obligations' and 'regulatory and legal' requirements should be addressed.

## EFRAG Research Project *Transactions other than Exchanges of Equal Value*

In December 2016, EFRAG TEG discussed a possible accounting model for the recognition of expenses and liabilities arising from transactions where entities pay cash in exchange for an unidentifiable good or service. At its February 2017 meeting, EFRAG TEG considered a paper that used government grants as a lead to illustrate how the model could also apply to revenue-generating transactions, and the related challenges.

EFRAG TEG noted that the ‘imposed transaction’ criterion previously used to define the scope of the project may need to be reconsidered. Also, it was suggested that some of the principles in IFRS 15 *Revenue from Contracts with Customers* could be helpful for some income-generating transactions, but additional work was needed on the matter.

No decisions were taken at the meeting.

## EFRAG Research Project *Pensions*

EFRAG TEG discussed the research project on defined benefit plans for which the promised benefit is linked, at least in part, to the return on specified assets. EFRAG TEG considered different approaches that could address the mismatch arising from projecting returns on pension assets and discounting those returns at a different rate when measuring the pension obligation. EFRAG TEG was not asked to express support for any alternative, but only to indicate what alternatives deserve further analysis.

Lastly, EFRAG TEG approved the composition of the new EFRAG Advisory Panel on Pensions. The Advisory Panel will be required to provide their views on the initial range of alternatives.

No decisions were taken at the meeting.

## EFRAG TEG and EFRAG CFSS meeting on 22 February

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At its [meeting on 22 February](#), EFRAG TEG and EFRAG CFSS discussed:

- IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*
- IASB Exposure Draft *Definition of a Business*
- IASB Project *Principles of Disclosure and Definition of Materiality*
- IASB Project *Rate-regulated Activities*
- IASB Project *Symmetric Prepayment Options (Amendments to IFRS 9)*
- IASB Research Project *Financial Instruments with Characteristics of Equity*
- IASB Research Project *Primary Financial Statements*

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

EFRAG CFSS and EFRAG TEG discussed various issues related to the Conceptual Framework project in preparation for the March 2017 meeting of the Accounting Standards Advisory Forum.

Following the IASB’s tentative decisions, the revised Conceptual Framework would not refer to the statement of cash flows. Members considered that, although the statement of cash flows was not important for all entities, it was a very useful statement for many types of entities. Members accordingly assessed that the revised Conceptual Framework should refer to the statement of cash flows.

Members raised various concerns with the IASB’s tentative guidance on executory contracts, including a lack of clarity as to the implications of the guidance on current practice.

Members noted that there was a need for guidance on the types of carve-out or combined financial statements that could be prepared under IFRS Standards. However, the guidance would not necessarily have to be developed in the Conceptual Framework.

### IASB Exposure Draft *Definition of a Business*

EFRAG CFSS and EFRAG TEG discussed the comments received in response to the IASB's Exposure Draft, in particular the comments on the proposed 'screening test', which was designed to simplify the assessment of whether a set of activities and assets is a business in cases when substantially all of the fair value of the gross assets is concentrated in a single asset or group of similar assets.

Members acknowledged the difficulty of retaining the simplicity of the proposed screening test while totally avoiding outcomes that differ from the application of the rest of the proposed guidance. Some members also noted that changing the form of the screening test into either an indicator or a rebuttable presumption could also lead to complications. Some members therefore questioned whether the screening test should be retained. The majority favoured retaining the test but in a non-determinative form.

### IASB Project *Principles of Disclosure and Definition of Materiality*

EFRAG CFSS and EFRAG TEG discussed recent developments in the *Principles of Disclosure and Definition of Materiality* projects. Some members considered that the proposed changes to the definition of materiality, in particular introducing the term 'obscuring', could have unintended consequences and that the proposed new definition could be difficult to audit and enforce. These concerns will need to be analysed when responding to the Exposure Draft.

Members were also invited to discuss possible outreach activities that could be conducted around the publications and several members expressed an interest in hosting events in their jurisdictions.

### IASB Project *Rate-regulated Activities*

EFRAG CFSS and EFRAG TEG discussed recent developments in the project. Members considered the potential impact of making the distinguishing features of defined rate regulation indicators of the type regulation the IASB was trying to address, rather than criteria, and whether this would widen the scope and include activities in sectors other than utilities.

Members discussed the request for information the Canadian Accounting Standards Board (AcSB) had sent to ASAF members to gather information on rate-regulated regimes outside Canada, which would contribute to the research work that the AcSB was currently undertaking on the topic.

### IASB Project *Symmetric Prepayment Options (Amendments to IFRS 9)*

EFRAG CFSS and EFRAG TEG discussed the IASB's tentative decisions on the forthcoming Amendments.

Members indicated that, in their view, the types of features covered in the Amendments could be found in Switzerland, France, Germany and the UK, but were not evidently common in the European Union or European Economic Area overall. Members were generally of the view that, for the limited scope of instruments within the scope of the Amendments, the use of amortised cost could provide useful information.

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

EFRAG CFSS and EFRAG TEG members discussed the illustrative examples developed by the IASB Staff and the potential practical implications of the developing Gamma approach that will be included in the forthcoming Discussion Paper.

Members considered the illustrative examples helped to understand the potential practical implications of the new approach.

However, members observed that the Gamma approach being developed by the IASB to distinguish equity from liabilities would introduce new classification and presentation challenges, particularly for derivatives on own equity. For example, applying the new concepts “depends solely on the residual amount” and “amount independent of the entity’s economic resources” may involve significant judgement, in particular for financial instruments with various different features.

Members also considered that it would be useful to expand the examples and related guidance to better illustrate the potential practical implications on classification, presentation and disclosures.

### IASB Research Project *Primary Financial Statements*

EFRAG CFSS and EFRAG TEG members discussed the scope of the IASB’s research project *Primary Financial Statements* and received an update on the outcome of the research activities undertaken by the IASB Staff and EFRAG Secretariat.

Members highlighted the importance of this project and generally agreed with the IASB’s tentative decisions on the scope of the project. However, some members considered that it would be challenging to define an “operating profit” subtotal and recalled that past standard-setting activities on the definition of operating profit had been unsuccessful.

In addition, some also noted that an overly prescriptive approach on the presentation of line items and subtotals would not provide preparers with sufficient flexibility to explain their business model and could create difficulties to those that belong to a specific industry such as banking and insurance. Still, some believed that general principles on the use of Alternative Performance Measures could be useful, particularly when these measures are mentioned in the primary financial statements. Finally, some members called for improvements to the statement of changes in equity.