

October 2012

Summary of EFRAG Technical Expert Group and Consultative Forum of Standard Setters meeting October 2012

From 3 to 5 October 2012, EFRAG TEG held its monthly meeting. The first day of the meeting was held together with European National Standard Setters in EFRAG's Consultative Forum of Standard Setters. The following topics were discussed:

- FRC note for the IFRS Interpretations Committee *The Sharman Report and disclosure of material uncertainties under IFRS*
- IAS 28 *Investments in Associates and Joint Ventures* – Equity method: accounting for other net asset changes of an associate or joint venture
- EFRAG operational and due process improvements
- Revision of the EU Accounting Directives
- IFRS Interpretations Committee Draft Interpretation *Put-options written on non-controlling interests*
- Canadian Institute of Chartered Accountants paper *Toward a Measurement Framework for Financial Reporting by Profit-Orientated Entities*
- Autorité des Normes Comptables paper *Proposals for Accounting for GHG Emissions Rights reflecting companies' business models*
- IASB Review Draft *General Hedge Accounting*
- IASB Project *Leases*
- EFRAG's Proactive Project *The Role of the Business Model in Financial Reporting*

FRC note for the IFRS Interpretations Committee *The Sharman Report and disclosure of material uncertainties under IFRS*

The United Kingdom Sharman Panel of Inquiry, established at the invitation of the UK Financial Reporting Council (FRC) to consider going concern and liquidity risks, published its final report and recommendations (Sharman Report) in June 2012. The primary purpose was to reinforce responsible behaviour in the management of going concern risks for companies.

In September 2012, the FRC issued a note for the IFRS Interpretations Committee *The Sharman Report and disclosure of material uncertainties under IFRS*.

EFRAG CFSS received a presentation on the report from Andrew Lennard, Director of Research, Codes & Standards of the FRC Accounting Council, and had a lively discussion.

IAS 28 *Investments in Associates and Joint Ventures* - Equity method: accounting for other net asset changes of an associate or joint venture

EFRAG TEG and CFSS members received an update on the discussions that have been held by the IFRS Interpretations Committee and the IASB on how to apply the equity method of accounting under IAS 28 *Investments in Associates and Joint Ventures* to an investor's share of the changes in equity in an associate or joint venture other than profit or loss, other comprehensive income or distributions made by the investee. The IASB tentative decision is to account for such changes in the investor's equity. The IASB is expected to issue an Exposure Draft shortly.

EFRAG will further consider the issue at its meeting in November 2012.

EFRAG operational and due process improvements

After the limited governance review conducted in 2012, EFRAG decided on a number of operational and due process improvements, which include obtaining early input, primarily from European National Standard Setters (NSS), on IFRS accounting issues before EFRAG issues a Draft Comment Letter.

EFRAG aims to obtain early input before the IASB issues proposals on particular topics so as to allow EFRAG TEG to assess and address such input in its discussions. Setting up this new approach, however, does not replace the existing EFRAG's due process through which NSS comment on EFRAG's Draft Comment Letter.

At the October 2012 meeting, EFRAG CFSS and EFRAG TEG discussed how a new approach to gather early input might be implemented in close coordination. For this purpose, different elements were explored including the timeline of the early input and which type of EFRAG documents could be provided to NSS to assist them in providing such early input.

The preliminary views provided by NSS at the joint meeting will assist EFRAG in discussing detailed arrangements individually with each NSS to best suit specific circumstances.

Revision of the EU Accounting Directives

During the October EFRAG CFSS meeting, the members received an update on the latest developments on the proposed EU Accounting Directive from a representative of the financial reporting unit of the Internal Market and Services Directorate General of the European Commission.

The members were informed about how the European Commission has taken initiatives with legislative proposals to revise the existing Accounting Directives with as purpose to reduce the administrative burden for micro and small entities. The EC proposed Directive has been discussed by the Council of Ministers and is still under discussion by the European Parliament which is expected to finalise its discussions in its January plenary session. Thereafter the triologue will be started aiming at achieving a compromise in the first reading.

IFRS Interpretations Committee *Draft Interpretation Put-options written on non-controlling interests*

EFRAG TEG discussed comments from constituents and a draft final comment letter in relation to Draft Interpretation DI/2012/2 *Put Options Written on Non-controlling Interests*, issued by the IFRS Interpretations Committee in May 2012.

EFRAG's due process indicated the accounting for NCI puts in the consolidated accounts of an entity is a complex and controversial issue. The majority of constituents expressed support for the Draft Interpretation as it would eliminate diversity in practice as a pragmatic short term solution, but highlighted that further standard-setting effort is needed both to address other aspects of NCI accounting and wider questions on financial instruments with characteristics of equity.

At the meeting a majority of EFRAG TEG members supported the Draft Interpretation on the basis that it was a pragmatic, short-term approach to address existing diversity in practice in a manner that EFRAG accepts is consistent with IAS 32 and IAS 39. However, the majority of EFRAG TEG members believed that the diversity in practice arose because of a conflict in principles in IAS 27/IFRS 10 and IFRIC 17 with IAS 32/IAS 39, and that the rationale for the IFRS Interpretations Committee's decisions should be made clear in the Basis for Conclusions.

Canadian Institute of Chartered Accountants paper *Toward a Measurement Framework for Financial Reporting by Profit-Orientated Entities*

EFRAG TEG continued its discussions on the paper 'Toward a Measurement Framework for Financial Reporting by Profit-Oriented Entities' ('the paper'). EFRAG TEG reaffirmed its tentative view that the paper does not include persuasive arguments for why current market value in all cases would result in the most useful financial information. EFRAG TEG thought that the model proposed in the paper would not always result in the most useful information and particularly noted that the model proposed by the paper could result in revenue and cost figures reflecting cash inflows and outflows of hypothetical transactions and events instead of the transactions and events that actually occurred during the reporting period.

However, EFRAG TEG was pleased to note that stewardship and reliability in relation to measurement were both considered when developing the paper. It also thought that the analyses of the paper would be very useful when developing a conceptual framework for measurement.

EFRAG TEG also considered the structure of the EFRAG draft comment letter. In order to facilitate comments from constituents, it decided to provide a short and general response to the paper supplemented by an appendix providing the basis for EFRAG's tentative conclusions. EFRAG's draft comment letter is expected to be finalised on the EFRAG TEG conference call on 15 October.

Autorité des Normes Comptables paper *Proposals for Accounting for GHG Emissions Rights reflecting companies' business models*

EFRAG TEG resumed a discussion on *Proposals for Accounting for GHG Emissions Rights reflecting companies' business models* discussion paper issued by the ANC. The objective of the session was to finalise the EFRAG Draft Comment Letter.

EFRAG TEG members continued to support an accounting model which is based on the eventual use of the emission rights, meaning that the model should distinguish between rights held for compliance and for trading purposes. EFRAG TEG members noted that to apply both models, an entity would need to have procedures to ensure an effective administrative segregation. EFRAG TEG members also debated on the similarity of emission rights with other commodities that are traded and used in the manufacturing process.

EFRAG TEG members continued their debate on the possible accounting for free allowances, and measurement of the liability noting that separate events are taking place when rights are given for free and when the company emits therefore appropriate representation of these facts is necessary so that

this information is transparent to the users. EFRAG's draft comment letter is expected to be finalised on the EFRAG TEG conference call on 15 October.

IASB Review Draft *General Hedge Accounting*

EFRAG TEG members discussed the IASB's General Hedge Accounting Review Draft. Although the hedging mechanics such as rebalancing and discontinuation of hedges still need to be tested in practice, a number of points had already been put forward by constituents

Concerns were also raised on the 40 pages of amendments to other IFRSs. The EFRAG staff was asked to analyse possible unintended consequences of these amendments to other IFRS and to consider how existing macro-hedge requirements might fit in with IFRS 9 general hedge accounting model and to start undertaking outreach with practitioners on this issue.

It was announced that EFRAG TEG would discuss the results of EFRAG's field test of the proposals in the review draft in November 2012.

IASB Project *Leases*

EFRAG TEG received a revised update paper summarising IASB deliberations and tentative decisions to date. EFRAG TEG was informed that the deliberations have not yet been ended and the expected re-exposure date has been shifted to the first quarter of 2013. The comment period of the draft has not been changed and is still expected to be 120 days.

The EFRAG staff provided EFRAG TEG with a paper containing quantitative data on leases in Europe. While statistics do not include reference as to whether lessees and lessors are IFRS applicants, the statistics were aiming at giving some measure of the expected impact in Europe of the deliberated proposals for new lease accounting regulations. EFRAG TEG's discussions focused on the size of the leasing market, including real estate operations and attempted to evaluate the possible impact on the European lessees' financial statements presented under IFRS. It was noted however that there are several limitations of the presented approach and the collected data.

The EFRAG staff also prepared and presented a discussion paper on alternative criteria to identify a lease. During a discussion that followed, several issues and concerns were raised. EFRAG TEG members expressed their concern on the rationale behind a dual accounting model for lessees. Some EFRAG TEG members also gave their support for development of alternative criteria to identify a lease based on transfer of risks. EFRAG staff will bring a revised paper on alternative criteria for the next EFRAG TEG meeting.

EFRAG's Proactive Project *The Role of the Business Model in Financial Reporting*

EFRAG TEG was provided with an update on the EFRAG proactive project *The Role of the Business Model in Financial Reporting project*. EFRAG TEG agreed a revised draft outline and the approach for the discussion paper. The first draft of the discussion paper is expected to be discussed with EFRAG TEG at its December 2012 meeting.