

November 2013

Summary of EFRAG Technical Expert Group (TEG) meeting November 2013

EFRAG TEG held a conference call on 23 October 2013 to approve a final comment letter on IASB Exposure Draft *Agriculture – Bearer Plants* and a draft comment letter on IASB Exposure Draft *IFRS for SMEs – Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities*.

EFRAG TEG held a conference call on 29 October 2013 to hold educational sessions on alternatives to the proposals in the IASB Exposure Draft *Insurance Contracts*.

From 6-8 November 2013 EFRAG TEG held its monthly meeting. The following topics were discussed:

- IASB Exposure Draft *Insurance Contracts*
- IASB Exposure Draft *Agriculture – Bearer Plants*
- IASB Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*
- EFRAG/DASB/ICAC/OIC Proactive Project *Separate Financial Statements*
- EFRAG/OIC Proactive Project *Business Combinations Under Common Control*
- Long-term asset-driven investment business models
- IASB Exposure Draft *Leases*
- IASB Project *Accounting for macro hedging*
- IASB Project *IFRS 9 Financial Instruments – Impairment*

Highlights

Comment letters

EFRAG published its final comment letter on the IASB Exposure Draft *Agriculture – Bearer Plants* on 28 October 2013. For more details please see page 2.

EFRAG finalised its comment letter on the IASB Exposure Draft *Insurance Contracts*. The final comment letter will be published shortly. For more details please see page 2.

EFRAG published its draft comment letter on the IASB Exposure Draft *IFRS for SMEs – Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities* on 31 October 2013. For more details please see page 2.

Feedback statements

EFRAG finalised a feedback statement on 14 November 2013 following the publication of the comment letter on IASB Exposure Draft *Leases*. The feedback statement will be published shortly. For more details please see page 4.

EFRAG published a feedback statement 13 November 2013 following the finalisation of the comment letter on IASB Exposure Draft *Agriculture – Bearer Plants*. For more details please see page 2.

IASB Exposure Draft *Agriculture - Bearer Plants*

On a conference call on 23 October 2013, EFRAG TEG approved the final comment letter in response to the Exposure Draft. The final comment letter recommends the IASB to reconsider the scope of the project to cover all bearer biological assets. It also requests the IASB consider accounting issues related to the agricultural produce growing on bearer plants.

At its November 2013 meeting EFRAG TEG approved a feedback statement summarising how constituent input, including through outreach efforts, was considered in the finalisation of the EFRAG comment letter.

IASB Exposure Draft *IFRS for SMEs - Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities*

On a conference call on 29 October, EFRAG TEG approved a draft comment letter in response to the Exposure Draft. In its letter, EFRAG welcomes the proposed amendments to the IFRS for SMEs and appreciates the IASB's efforts to consider the issues identified during the Request for Information process.

EFRAG broadly agrees with the IASB's developed framework for how to deal with new and revised IFRS during future reviews of the IFRS for SMEs, but states that the IFRS for SMEs should not be changed based on changes in full IFRS that have not yet been implemented. EFRAG also considers that post-implementation reviews of new and revised IFRS represent the best opportunity to assess the suitability of the changes for SMEs.

The draft comment letter also expresses EFRAG's support for the IASB's proposal to align the main principles of Section 29 *Income Tax* with IAS 12 *Income Taxes* for the recognition and measurement of deferred tax balances. EFRAG also reiterates its recommendations that it would be beneficial to SMEs in certain jurisdictions if the IFRS for SMEs permitted the use of the revaluation model for Property, Plant and Equipment and included an option for the borrowing costs and development costs to be capitalised, although EFRAG generally does not support options.

EFRAG also recommends eliminating the choice of how to recognise all actuarial gains and losses on employee benefit obligations and mandate that they are recognised in other comprehensive income. In this circumstance EFRAG sees benefits in aligning the IFRS for SMEs with full IFRS.

IASB Exposure Draft *Insurance Contracts*

On a conference call on 29 October 2013, EFRAG TEG members received the following educational sessions:

- an insurance industry alternative proposal for participating contracts; and
- an alternative approach for the measurement of reinsurance contracts held.

At its November 2013 meeting, EFRAG TEG members were briefly provided with the results of a field-test carried out by EFRAG and the National Standard Setters of France, Italy, Germany and the United Kingdom and in partnership with the IASB and the analysis of the comment letters received in response to EFRAG's draft comment letter. EFRAG TEG members approved EFRAG's final comment letter to the IASB on the insurance Exposure Draft.

In its final comment letter EFRAG states it appreciates the effort with which the IASB has considered its requests to address the accounting mismatches that may arise from the application

of different measurement models to financial assets and insurance liabilities. However, EFRAG does not support the ‘mirroring approach’ as proposed by the IASB.

EFRAG also does not support the mandatory use of other comprehensive income to report the impact of changes in the discount rate of the insurance liabilities. EFRAG believes that avoiding mismatches calls for alignment of measurement of assets that are backing insurance liabilities. EFRAG has recommended the IASB identifies a third ‘liability-driven’ long term investment business model as stated in the letter of 25 October 2013 based on the feedback in the ‘Long-term investing activities business model consultation’. On that basis, entities would need to make an irrevocable accounting policy choice on an entity level whether to report the impact of changes in the discount rate of the insurance liabilities in the statement of profit or loss or the statement of other comprehensive income. However, if an entity elects the latter, it should be eligible, for portfolios managed on a fair value through profit or loss basis, to report the impact in profit or loss. If EFRAG’s recommendation is not implemented, entities should be allowed to make an irrevocable accounting policy choice at portfolio level in order to be able to cope as much as feasible with the elimination of accounting mismatches.

EFRAG also highlights that there are unsolved accounting mismatches for derivatives and suggests that hedging strategies that participate in the insurance asset liability management should be considered in the scope of the macro-hedging project.

EFRAG agrees with the proposals on adjusting the contractual service and the effective date and transition. With respect to the presentation of insurance contract revenue and expense, EFRAG is, on balance, supportive of a summarised margin presentation with volume information disclosed in the notes to the financial statements.

IASB Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*

At its November 2013 meeting, EFRAG TEG discussed draft bulletins on complexity and measurement. In addition, EFRAG TEG considered the comments received in response to the bulletins *The role of a conceptual framework* and *The role of the business model in financial reporting*.

EFRAG TEG considered that both bulletins on complexity and measurement require more work.

Based on the comment letters received, EFRAG TEG concluded that EFRAG’s position, as explained in the bulletins *The role of a conceptual framework* and *The role of the business model in financial reporting*, needed to be set out more clearly in the final comment letter to the IASB.

Based on a comment received EFRAG TEG also discussed whether EFRAG and its partners should continue to issue Bulletins. It was decided to continue. However, EFRAG and its partners should ensure that the focus is on the objectives set at inception of the project, as set out in *Getting a Better Framework – Our Strategy*.

EFRAG/DASB/ICAC/OIC Proactive Project *Separate Financial Statements*

At its November 2013 meeting, EFRAG TEG members discussed accounting for contingent consideration in Separate Financial Statements. They asked EFRAG Staff to consider this issue further, distinguishing between initial and subsequent accounting for contingent consideration, but also elaborating on why Separate Financial Statements are different to Consolidated Financial Statements, and consequently determining whether, and if so justifying why, a different accounting treatment should apply.

EFRAG TEG members also discussed the legal merger between a parent and its subsidiary in Separate Financial Statements. They provided a number of recommendations on how to address the issue, and stressed the importance of the legal boundary in Separate Financial Statements and

possible ways of exploring further the different approaches by linking them to real life transactions and current accounting practice in Europe.

EFRAG/OIC Proactive Project *Business Combinations Under Common Control*

At its November 2013 meeting, EFRAG TEG received an update on the current development of this project. At its September 2013 meeting, the IASB agreed on a list of sub-topics that had been identified for research. Many of these sub-topics were already part of the EFRAG/OIC project.

Therefore, EFRAG TEG believed that the next step to consider was liaising with the IASB in order to contribute to the future development of the IASB's project.

Long-term asset-driven investment business models

At its November 2013 meeting, following EFRAG consultations on accounting for long-term investing activities, EFRAG TEG members discussed the possible characteristics of an 'asset-driven' long-term investing business model and which investors share those characteristics. EFRAG TEG members agreed that further work should be performed to conclude if there is a need for specific financial reporting for this type of long-term investors.

IASB Exposure Draft *Leases*

At its November 2013 meeting, EFRAG TEG approved a feedback statement summarising how constituent input was considered in the finalisation of the EFRAG comment letter.

EFRAG TEG also considered the report on the joint field-testing of the Leases proposals conducted with the National Standard Setters of France, Germany, Italy and the UK.

IASB Project *Accounting for macro hedging*

At its November 2013 meeting, EFRAG TEG received an educational session on macro hedging practices for interest rate risk management in the banking industry from HSBC.

EFRAG TEG also discussed a number of essential characteristics of a future macro hedge accounting model. EFRAG TEG discussed whether different types of hedged items as being used in risk management could be eligible for hedge accounting purposes. The appropriateness of the risk management practice of using behavioural estimates was debated.

EFRAG TEG also considered the various possibilities to value hedging instruments and hedged positions each with its related difficulties in order to find out whether alternatives for a revaluation approach were feasible.

The scope of a macro hedge accounting model was debated as well as the operational concerns of dealing with open portfolios of hedged items and behavioural estimates.

IASB Project *IFRS 9 Financial Instruments - Impairment*

EFRAG TEG received an update on the tentative decisions of the IASB during September and October 2013 relating to the expected credit losses model. No decisions were taken during the session.