



### 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 2017 Publications

##### **Final Endorsement Advice**

On 27 March, EFRAG submitted its Endorsement Advice relating to IFRS 16 for use in the European Union and European Economic Area. EFRAG has assessed that IFRS 16 meets all technical endorsement criteria of the IAS Regulation and is conducive to the European public good. It therefore recommends endorsement of IFRS 16.

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

#### March 2017 meetings

This edition of the EFRAG Update contains summaries of meetings held in March by:

- The EFRAG Board; and
- The EFRAG Technical Expert Group (EFRAG TEG).

## Detailed meeting reports

### EFRAG Board meeting on 22 March

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The EFRAG Board met on 22 March and discussed the following:

- IFRS 16 *Leases*
- EFRAG research activities
- EFRAG technical work plan

#### IFRS 16 *Leases*

The EFRAG Board approved a final endorsement advice to the European Commission after making amendments to incorporate new evidence from comment letters on the draft endorsement advice and other editorial changes.

#### EFRAG research activities

This item was deferred to the May meeting of the EFRAG Board.

#### EFRAG technical work plan

The EFRAG Board approved the technical work plan with the addition of the EFRAG research activities update for the May meeting of the EFRAG Board.

### EFRAG Board – Expected April written procedures

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

- EFRAG's final endorsement advice on *Transfers of Investment Property (Amendments to IAS 40)*
- EFRAG's final endorsement advice on *IFRIC 22 Foreign Currency Transactions and Advance Consideration*
- EFRAG's final endorsement advice on *Annual Improvements to IFRS Standards 2014 - 2016 Cycle*
- EFRAG's Draft Comment Letter on the IASB Exposure Draft *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*
- EFRAG's Final Comment Letter on *Annual Improvements to IFRS Standards 2015-2017 Cycle*

### EFRAG TEG meeting on 29-30 March

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At its meeting on 29 and 30 March, EFRAG TEG discussed:

- IASB Publication *Annual Improvements to IFRS Standards 2014-2016 Cycle*
- IASB Publication *Transfers of Investment Property (Amendments to IAS 40)*
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
- IASB Exposure Draft *Conceptual Framework for Financial Reporting*

- IASB Project *Insurance Contracts*
- IASB Project *Disclosure Initiative - Principles of Disclosure*
- IASB Project *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*
- IASB Project *Post-implementation Review: IFRS 8 Operating Segments*
- IASB Research Project *Goodwill and Impairment*
- IASB Research Project *Primary Financial Statements*
- EFRAG Research Project *Equity Instruments – Impairment and Recycling*

### *IASB Publication Annual Improvements to IFRS Standards 2014-2016 Cycle*

EFRAG TEG agreed to recommend to the EFRAG Board a Final Endorsement Advice supporting the endorsement of the Amendments.

### *IASB Publication Transfers of Investment Property (Amendments to IAS 40)*

EFRAG TEG agreed to recommend to the EFRAG Board a Final Endorsement Advice supporting the endorsement of the Amendments.

### *IFRIC 22 Foreign Currency Transactions and Advance Consideration*

EFRAG TEG agreed to recommend to the EFRAG Board a Final Endorsement Advice supporting the endorsement of IFRIC 22.

### *IASB Exposure Draft Conceptual Framework for Financial Reporting*

EFRAG TEG was updated on the latest developments on the IASB project on the Conceptual Framework.

EFRAG TEG considered different views on the benefits and problems related to endorsing the Conceptual Framework and noted that the European Commission was the body to decide on any endorsement of the Conceptual Framework.

EFRAG TEG had a preliminary discussion of whether the IASB's planned update of the reference in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to the revised Conceptual Framework should be endorsed if the revised Conceptual Framework is not endorsed. EFRAG TEG also considered the extent of the impact in practice on entities' accounting policies developed in accordance with the applicable guidance in IAS 8. EFRAG TEG expects that EFRAG will receive a request for an endorsement advice on this update.

No decisions were taken at the meeting.

### *IASB Project Insurance Contracts*

EFRAG TEG was provided with an update on the IASB's tentative decisions from its February meeting and with a summary of the discussions held at the March ASAF meeting.

No decisions were taken at the meeting.

### *IASB Project Disclosure Initiative - Principles of Disclosure*

EFRAG TEG had a preliminary discussion on the expected content of the forthcoming Discussion Paper.

Members reiterated the view that the project was very important but expressed concerns as to whether the proposed content of the Discussion Paper would align with its initial ambitions to address the disclosure problem and change behaviour. In EFRAG TEG's view, the project should not limit its focus to the structure of the notes or the location of information but rather aim to develop

principles to identify why, when and where information should be disclosed. Otherwise it could result in over-prescriptive guidance and could fail to achieve the objectives of the Disclosure Initiative to reduce clutter and improve disclosure effectiveness.

EFRAG TEG also expressed concerns about the overlap with other projects and, in particular, the need to consider the interactions with the Materiality and Primary Financial Statements projects.

No decisions were taken at the meeting.

### *IASB Project Prepayment Features with Negative Compensation (Amendments to IFRS 9)*

EFRAG TEG discussed the forthcoming Amendments related to symmetric prepayment options, or prepayment features with negative compensation. EFRAG TEG was also provided with an oral update of the discussion held at the EFRAG Financial Instruments Working Group conference call of 23 March.

EFRAG TEG members generally supported the direction of the expected IASB proposals but expressed caution about the exact wording that will be included in the forthcoming Amendments. EFRAG TEG members considered that caution is needed to avoid potential spill-over effects to the assessment of prepayment options with positive compensation in accordance with the existing version of IFRS 9 especially in view of the fast-track timetable envisaged for the project and short period of time before IFRS 9 becomes effective.

No decisions were taken at the meeting.

### *IASB Project Post-implementation Review: IFRS 8 Operating Segments*

EFRAG TEG discussed the forthcoming proposed amendments to IFRS 8 *Operating Segments* and IAS 34 *Interim Financial Statements*. EFRAG TEG generally agreed that the proposals would help to clarify the related requirements in IFRS 8. However, EFRAG TEG suggested some improvements to the description of the role of the chief operating decision maker and cautioned against introducing overly strict requirements for segment aggregation that could be seen as departing from the management perspective which underlies IFRS 8.

EFRAG TEG also agreed that the proposed amendment to IAS 34 was acceptable although some members observed that the proposal, which referred to the current and prior year interim periods, would not address some users' requests for an increased number of comparative periods.

No decisions were taken at the meeting.

### *IASB Research Project Goodwill and Impairment*

EFRAG TEG discussed two issues arising from recognising deferred tax liabilities in the initial measurement of goodwill and possible approaches to address these issues.

EFRAG TEG did not support amending the accounting for deferred taxes in IAS 12 *Income Taxes*. EFRAG TEG members had mixed views on whether the issues were significant in practice and, in particular, questioned the significance of the 'day one impairment issue' arising from recognising deferred tax liabilities within goodwill. Some EFRAG TEG members observed that significant judgement is necessary in determining the tax effects on fair value measurement.

No decisions were taken at the meeting.

### *IASB Research Project Primary Financial Statements*

EFRAG TEG received an update on the latest developments on the project *Primary Financial Statements* and discussed the use of additional subtotals in the Statement of Financial Performance, such as earnings before interest and taxes (EBIT) and management operating performance measures.

EFRAG TEG generally supported the direction of the project and considered that it would be useful to have general guidelines on the definition, calculation and use of these two performance measures. EFRAG TEG noted that both are commonly provided in practice by entities, although not necessarily in a consistent manner between entities, and are viewed as useful to users of financial statements.

Regarding the use of an EBIT measure and the definition of finance income and expenses, members generally agreed to further explore the concept of linking the definition to an entity's capital structure but noted that requiring the presentation of EBIT could raise some industry-specific issues. Finally, some EFRAG TEG members considered that it was important to clarify how the EBIT and management operating performance measures would interact with each other within the statement of profit and loss and other comprehensive income.

No decisions were taken at the meeting.

#### *EFRAG Research Project **Equity Instruments – Impairment and Recycling***

EFRAG TEG discussed aggregated quantitative data related to available for sale (AFS) equity instruments of large European listed companies. The data focused on the significance of holdings of total AFS equity instruments, the proportion of equity instruments requiring Level 3 fair value measurements, and impairment policy disclosures regarding the application of the 'significant' and 'prolonged' impairment criteria for AFS instruments in IAS 39.

No decisions were taken at the meeting.