

December 2011

## Summary of EFRAG meetings held in December 2011

On 18 November 2011, EFRAG held a meeting by public conference call to discuss and finalise its draft comment letter on the IASB's Exposure Draft – *Government Loans (Proposed Amendments to IFRS 1)*.

From 7 to 9 December 2011, EFRAG held its monthly meeting. The first day of the meeting was held together with the European national standard setters in EFRAG's Consultative Forum of Standard Setters (CFSS). The following topics were discussed during the monthly meeting:

- IFRS 10 *Consolidation*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, revised IAS 27 *Separate Financial Statements* and revised IAS 28 *Investments in Associates and Joint Ventures* – Outcome of the field-test
- IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 – Discussion on the draft endorsement advice
- EFRAG Proactive project *Disclosure Framework for the Notes to the Financial Statements*
- EFRAG Proactive project *The Role of the Business Model in Financial Reporting*
- Amendments to IFRS 1 – *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
- IASB Exposure Draft – *Government Loans (Proposed Amendments to IFRS 1)*
- IASB Exposure Draft – *Revenue from Contracts with Customers*
- IASB re-deliberations in the project *Leases*
- ESMA's recent reports and consultation papers

## Highlights

### **Endorsement Advices**

EFRAG finalised its draft endorsement advice and a draft effects study report on Amendments to IFRS 1 – *Severe Hyperinflation and Removal of Fixed Dates for First-time adopters*.

Comments are requested by 8 January 2012 (refer to page 4).

### **Comment letters**

EFRAG issued its draft comment letter to the International Accounting Standards Board on the Exposure Draft – *Government Loans (Proposed Amendments to IFRS 1)*. EFRAG is supportive of what the proposed amendments are trying to achieve, but it believes that the proposed transitional relief granted by the Exposure Draft should be limited only to entities that, under their previous GAAP, accounted for government loans as liabilities.

## IFRS 10, IFRS 11 and IFRS 12 - Outcome of the field-test

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During the session held together with the European national standard setters, EFRAG and CFSS members considered the outcome of the field-test that EFRAG has conducted in partnership with participating European National Standard Setters on IFRS 10, IFRS 11 and IFRS 12. The feedback received at the meeting was considered by EFRAG the following day as part of its initial assessment of the standards against the criteria for endorsement in the EU.

27 companies participated in the field-test on IFRS 10, while 26 companies participated in the field-test on IFRS 11. Participants in the field-test were asked to complete a questionnaire on the requirements in those areas in the standards that EFRAG believed might be most challenging to preparers. The participants were mainly listed European companies, with some companies listed also in the United States, and represented different countries and industries.

In both field-tests, some participants noted that they had concerns that the mandatory effective date of 1 January 2013 would not allow them sufficient time to make the required assessments, obtain the necessary information and implement the new requirements. The concerns on IFRS 10 were reported primarily by companies in the financial services industry and insurance industry, with SEC registrants reporting particular problems relating to the retrospective application of the requirements. With regard to IFRS 11, the main general issue raised concerned the need to access detailed information regarding joint arrangements and specific issues reported on how to determine classification based on facts and circumstances, the level of judgement and assumptions required and the difficulty in accounting for joint arrangements classified as joint operations.

CFSS and EFRAG members also considered whether a feedback statement on the outcome of the field-test should be published. No decisions were taken in this respect.

## IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 - Discussion on draft endorsement advice

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During this meeting, EFRAG discussed the initial draft endorsement advices and cost and benefit analyses on IFRS 10, IFRS 11, IFRS 12 and the amendments to IAS 27 and IAS 28. These standards were issued as a package by the IASB in May 2011.

EFRAG further discussed the outcome of the field-test conducted by the staff. EFRAG noted that the outcome of the field-test had confirmed that developing a common understanding of how the principles should be applied, would require more effort and time than preparers had originally expected.

Furthermore, EFRAG considered the two existing IASB projects that would affect the application of IFRS 10 and that created uncertainty for constituents; namely the forthcoming amendments of the transition guidance in IFRS 10 and the recently issued Exposure Draft *Investment Entities*. A number of constituents had expressed concerns about the implications of these proposals on the implementation of IFRS 10, once they were issued as final standards. Based on the evidence gathered from the field-tests, EFRAG concluded that the effective dates of all five standards should be deferred to allow constituents more time to understand the requirements and plan for the implementation of the new requirements, taking into account the finalised amendments to IFRS 10 and standard on investment entities.

EFRAG decided it would write to the IASB to request the effective dates of all five new standards be deferred to the later of (a) 1 January 2014 or (b) 12 months after the amendments to IFRS 10 and the standard on investment entities have both been published. This would allow companies to plan and implement the standards in an orderly manner and contribute to the quality of the information reported. A letter was approved by EFRAG on 9 December 2011, and published on the same day.

EFRAG will continue discussing the endorsement of the new standards at its meeting in January 2011.

## **EFRAG Proactive project *Disclosure Framework for the Notes to the Financial Statements***

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At its December 2011 meeting, EFRAG noted that it was important to clarify that the project was aimed at improving the quality of notes by ensuring they only included relevant information and not reducing volume of disclosures – though that may be a by-product of a sharper focus on relevance.

EFRAG staff continued the discussions on the components of the Framework. In particular, the project considers decision-making processes both at the standard-setter level for setting the requirements and at preparer level to apply those requirements. Indicators are to be considered when setting or applying disclosure requirements to fulfil the information needs assigned to the notes. EFRAG also considered what aspects of specific disclosures such as risk and related party transactions were appropriate to include in the notes and what belonged elsewhere in the financial report. Participants emphasised that notes should be prepared to communicate key messages about the financial position and performance, and not as a compliance exercise. EFRAG encouraged the project team to set various alternatives for discussion and to use the proposals to test current disclosure requirements in a number of standards. The discussion of the project will continue at future meetings.

## **EFRAG Proactive project *The Role of the Business Model in Financial Reporting***

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At its December 2011 meeting, EFRAG discussed both an updated timeline for the project and a detailed outline of a potential discussion paper for the first phase. The first phase of the project was intended to explore the meaning of the term 'business model'. The results of the first phase would then be used to examine the role of the business model in financial reporting.

During the meeting, participants emphasised the need to consider the possible ways to depict the business model that would be meaningful for financial reporting purposes and to avoid broad and unguided considerations. EFRAG decided also to reconsider the phasing of the project, as dealing with the project in two distinct phases would unduly delay the project and potentially jeopardise its usefulness. EFRAG decided that the project should be completed as a single phase with one discussion paper aimed at discussing the possible implications of the business model for financial reporting.

EFRAG asked the staff to reconsider the approach to the project and develop a revised plan for carrying out the project in a single phase.

## Amendments to IFRS 1 - *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

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*Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (‘the Amendments’) introduce a new exemption in the scope of IFRS 1 *First-time Adoption of International Reporting Standards* for entities emerging from severe hyperinflation and replace the references to fixed dates in IFRS 1 with references to the date of transition.

In December 2011, EFRAG issued an Invitation to Comment relating to the endorsement of the Amendments for use in the European Union and European Economic Area. It is consulting both on its assessment of the Amendments against the criteria for the endorsement in the EU and on its initial assessment of costs and benefits that would arise from the implementation and application of the Amendments in the EU.

EFRAG’s initial assessment was that the Amendments satisfy the technical criteria for EU endorsement and should therefore recommend its endorsement.

Comments are requested by 8 January 2012.

## IASB Exposure Draft - *Government Loans (Proposed Amendments to IFRS 1)*

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In May 2008 the IASB amended IAS 20, as part of an Annual Improvements Project, in order to require government loans with a below-market rate of interest be measured at fair value on initial recognition.

The IASB required applying the amendments prospectively to new loans in order to avoid fair value measurements at a past date.

In September 2011 the IASB decided to amend IFRS 1 in order to allow first-time adopters of IFRSs the same prospective application of the provision set out in IAS 20. Consequently, the IASB published on 19 October 2011 the Exposure Draft *Government Loans (Proposed Amendments to IFRS 1)* (the ED). The IASB allowed first-time adopters to apply the amendments retrospectively if the information needed to comply with IAS 20 requirements was obtained at the time of initial recognition of the loan.

In November 2011, EFRAG issued its draft comment letter on the ED. EFRAG is supportive of what the proposed amendments are trying to achieve, but believes that the IASB should limit the scope of the proposed transitional relief to entities that, under their previous GAAP, accounted for government loans as liabilities. Comments are invited on the letter by 27 December 2011.

## IASB Exposure Draft - *Revenue from Contracts with Customers*

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At its December meeting, EFRAG discussed the ED on Revenue from Contracts with Customers. EFRAG expects to issue its draft comment letter in response to this draft comment letter in January 2012.

At the meeting it was decided that EFRAG should ask the IASB to extend its comment period by 60 days.

## IASB re-deliberations in the project *Leases*

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EFRAG and CFSS members received an update on the IASB redeliberations on the accounting model for lessors. The main issues discussed were the use of a single accounting model for lessor and the proposals on the subsequent measurement of the residual asset. Other discussion areas included certain exemptions in the new proposals on leases, measurement of the lease receivable, discount rate and presentation requirements.

EFRAG staff will continue to monitor the developments in the IASB's Leases project.

## ESMA's recent reports and consultation papers

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EFRAG and CFSS members received an update from ESMA on its recent consultation paper *Considerations of materiality in financial reporting* and the work underlying its *Activity Report on IFRS Enforcement in 2010* and the *Review of European enforcers on the implementation of IFRS 8 – Operating Segments*.