

November 2011

Summary of EFRAG meetings held in October - November 2011

On 26 October 2011, EFRAG held a meeting by public conference call to discuss its comment letter on the IASB Exposure Draft *Improvements to IFRSs* (referred as Annual Improvements Project 2009-2011 Cycle in below).

On 7 and 8 November 2011, EFRAG held its monthly meeting and discussed:

- IASB Project *Insurance Contracts*
- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2011)
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*
- IASB Exposure Draft *Government Loans – Proposed Amendments to IFRS 1*
- Amendments to IAS 12 – *Deferred Tax: Recovery of Underlying Assets*
- IFRS 13 *Fair Value Measurement*
- EFRAG Proactive Project *Disclosure Framework for the Notes to the Financial Statements*
- IASB Project *Revenue Recognition*
- *Emissions Trading Schemes*

Highlights

Endorsement Advice

EFRAG has issued an Invitation to Comment relating to the endorsement of IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* for use in the European Union and European Economic Area. It is consulting both on its assessment of IFRIC 20 against the technical criteria for the endorsement in the EU and on its initial assessment of the costs and benefits that would arise from the implementation and application of IFRIC 20 in the EU. EFRAG's initial assessment is that IFRIC 20 satisfies the technical criteria for EU endorsement and EFRAG should therefore recommend its endorsement. The comment deadline is 9 December 2011 (page 2).

Comment letter

EFRAG finalised its comment letter to the International Accounting Standards Board on the Exposure Draft *Improvements to IFRSs* issued under its annual improvements project 2009-2011. EFRAG agrees with most of the proposals in the ED, except for the amendments to IAS 1 *Presentation of Financial Statements* and IAS 32 *Financial Instruments: Presentation*. Also, EFRAG is concerned about the increased complexity of IFRS 1 *First-time Adoption of International Financial Reporting Standards* recommends the Board to consider the longer term development of IFRS 1 (page 3).

IASB Project *Insurance Contracts*

EFRAG received an update on the IASB's re-deliberations of the proposals included in the Exposure Draft *Insurance Contracts* (the ED). EFRAG also received an update on the discussions held at the EFRAG Insurance Advisory Working Group meetings in September and October 2011. The following topics were discussed: fixed fee contracts, risk adjustment, eligibility criteria for the application of the modified approach, disclosures and the presentation of the primary financial statements.

EFRAG believes the IASB needs to ensure the proposals do not have unintended consequences and to extend their field testing activities to other companies in addition to the insurance industry (e.g. computer help-desk support providers).

EFRAG will continue to follow closely the IASB re-deliberations on the project.

IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2011)

EFRAG received an update on the status of the preparer field-testing that EFRAG staff is conducting in partnership with participating European national standard setters on IFRS 10, IFRS 11, and IFRS 12. The objective of the field-testing is to gather additional input from preparers to assist EFRAG in developing its initial assessment of the new IFRSs against the technical criteria for the endorsement in the EU and to better understand the costs and benefits that are likely to arise from implementation. EFRAG will discuss the endorsement of the new standards at its meeting in December 2011 and expects to publish its Invitation to Comment on its initial assessments soon after that meeting.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* provides guidance on recognition of production stripping costs as an asset and the initial and subsequent measurement of the stripping activity asset.

In November 2011, EFRAG has issued an Invitation to Comment relating to the endorsement of IFRIC 20 for use in the European Union and European Economic Area. It is consulting both on its assessment of the IFRIC 20 against the technical criteria for the endorsement in the EU and on its initial assessment of the costs and benefits that would arise from the implementation and application of IFRIC 20 in the EU.

EFRAG's initial assessment is that the IFRIC 20 satisfies the technical criteria for EU endorsement and EFRAG should therefore recommend its endorsement.

Comments are requested by 9 December 2011.

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

In May 2008 the IASB amended IAS 20, as part of the Annual Improvement Project, in order to require government loans with a below-market rate of interest to 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 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 discussed the proposed amendments in order to prepare its draft comment letter which will be next finalised at a conference call on 18 November 2011.

Annual Improvements Project 2009-2011 Cycle

During a meeting held by a conference call on 26 October 2011, EFRAG finalised its final comment letter in response to the IASB Exposure Draft *Improvements to IFRS* (the ED), which was issued in June 2011 under the IASB's annual improvements project 2009-2011.

EFRAG agrees with most of the proposals in the ED, but it disagrees with the changes to IAS 1 to reflect the Conceptual Framework for Financial Reporting 2010. EFRAG believes that if the IASB intends to propose that the revised Conceptual Framework be reflected in existing standards, it should undertake a separate project to that purpose. In addition, EFRAG believes that the proposed changes do not meet the criteria to be addressed as part of the Annual Improvements Project.

Moreover, EFRAG believes that the proposed amendments to IAS 32 *Financial Instruments: Presentation* relating to distributions to holders of equity instruments do not resolve the inconsistencies already existing in different requirements of IAS 12.

Finally, EFRAG is concerned about the increasing complexity of IFRS 1 and recommends the Board to consider the longer term development of IFRS 1.

Amendments to IAS 12 - *Deferred Tax: Recovery of Underlying Assets*

At the November EFRAG meeting, EFRAG continued to discuss the Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets* (the Amendments), which the IASB published in December 2010. EFRAG noted that the IFRS Interpretations Committee had discussed a request in respect to the Amendments at its meeting in November 2011, in which they commented that the Amendments do not provide an exhaustive list of cases in which the presumption could be rebutted. EFRAG approved an Invitation to Comment on the draft endorsement advice and a draft effects study report which is expected to be published in November 2011.

IFRS 13 *Fair Value Measurement*

EFRAG reviewed the draft endorsement advice and effects study report prepared by staff. While there was general support for the overall content and structure of the document, several drafting changes and improvements were suggested.

As with other issued standards, IFRS 13 *Fair Value Measurement* includes consequential amendments to IFRS 9 *Financial Instruments*, not yet endorsed at EU level. The European Commission is consulting with its legal services on the matter.

EFRAG did not take any decisions at this meeting. EFRAG will discuss this topic at a conference call on 18 November 2011.

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

EFRAG staff outlined the components of the Framework that have been developed by the project team. In particular, it was noted that the Framework responds to the challenge of improving the quality of information disclosed in the notes by (a) articulating a set of principles to provide discipline and structure to disclosure requirements set by standard-setters, (b) developing criteria for relevance and (c) addressing materiality at the entity level. Communication principles are also an important part of improving the preparation of the notes. EFRAG staff also provided more detail on the cooperation with the FASB project and the key messages from a recent FASB reference group meeting held in Norwalk.

EFRAG TEG members offered different insights relating to the project, such as to what extent Standard Setters should develop disclosure objectives or detailed requirements; if information on the entity's business model should be disclosed in the notes; and the need for appropriate interaction between relevance and materiality. The project will be discussed again at the December meeting.

IASB Project Revenue Recognition

At the November EFRAG meeting, EFRAG continued its discussion on the development of the IASB ED on revenue from contracts with customers.

Among other issues, EFRAG discussed the IASB's tentative decision to require five specific disclosures related to revenue in entities' interim reports. EFRAG's tentative view was that a long list of specific requirements would conflict with the principles of IAS 34 *Interim Financial Reporting*. Therefore, EFRAG did not support the IASB's tentative decision on this issue.

It is expected that the IASB will publish the revised exposure draft mid-November 2011 and EFRAG will have its draft comment letter ready in December 2011.

Emissions Trading Schemes

EFRAG received an update on the status of the project, which was last discussed at the November 2010 joint meeting between the IASB and FASB. One of the key issues is to determine when to recognise a liability if emissions are expected to exceed allocated allowances: throughout the compliance period as emissions take place, or only at the time when actual emissions exceed the allocation. EFRAG also received a presentation on current accounting practices.