

EFRAG-IASB Joint Meeting held on 26 August 2010

Summary of main messages expressed by the EFRAG delegation

EFRAG and IASB had one of their regular joint public meetings on August 26, 2010. The EFRAG delegation was composed of the EFRAG Chairman (Françoise Flores) and Vice-Chair (Mike Ashley), the Chairmen of France (Jérôme Haas) and Germany (Liesel Knorr) National Standard Setters and the Vice-Chair of Italy Standard Setter (Alberto Guissani), some of them accompanied by their Technical Directors. The UK Standard Setter Chairman was represented by the ASB Research Director (Andrew Lennard).

IASB was represented by its Chairman (Sir David Tweedie), Board members Elke König, Philippe Danjou, Jan Engström, Patricia McConnell, John Smith and Stephen Cooper, and Technical Director, Alan Teixeira and Associate Director, Sue Lloyd.

The meeting was a friendly constructive dialogue between EFRAG and the IASB. The EFRAG delegation conveyed the following main messages:

- 1- EFRAG continues to support IASB convergence efforts; however, convergence should never be met at the expense of quality.
- 2- Completing the financial instruments and the insurance projects by June remains a sound objective; however there is not a similar urgency, from an IFRS point of view, to finalise the Revenue Recognition and the Leases project. These latter projects need to be underpinned by stronger conceptual reasoning and thorough field testing.
- 3- It is critical that the IASB engages in a technical debate with European constituents on classification and measurement of financial instruments, the later phases (adoption of an expected loss model, bifurcation of embedded derivatives on the liability side). In EFRAG's view this sheds new light on the early decisions made in IFRS 9 and on where the boundary between fair value and amortised cost should fall in practice.
- 4- IFRS 9, once finalized, should not include any additional disclosure requirements that would be aimed at reconciling with any different model that the FASB may develop.
- 5- Revenue recognition should not be driven by the 'transfer of control' principle, unless having secured the right to consideration is recognized as an indicator that control has been transferred. Assessing that control has been transferred should not be done from the customer perspective, but from the entity's perspective.

Furthermore defining what information content revenue needs to provide investors and analysts should have been the first step into the project. Beyond this rather fundamental concern, EFRAG is broadly content of the other decisions made by the IASB, while recommending thorough field testing.

- 6- Before defining the appropriate changes to be made to the lease proposals, the IASB should reason and justify fully what difference there is between a lease and any other executory contract. In the absence of such a solid conceptual distinction, making the distinction between lease and service contracts is likely to be difficult and subject to interpretation. EFRAG also questions why intangibles should be scoped out and the justification for not complying with the definition of a liability in the treatment of options and contingent rentals.
- 7- IASB should not pursue its amendment towards a single statement of comprehensive income before undertaking a much sought after debate on what is performance and how best to depict it. Benefits claimed to be expected from this exposure draft have been obtained in the 2007 revision of IAS 1. EFRAG does not believe that recent changes in IFRS (Financial Instruments, Employee benefits) justify the change in presentation.
- 8- IASB should either drop the IAS 37 project, or restart it with identifying what is broken in the standard and what needs fixing. Fundamental changes such as the removal of the probability criterion and the extensive use of expected values for single risk items should be debated as part of the conceptual framework project before being implemented at standard level.
- 9- IASB should not provide specific and narrow accounting requirements, even though they are prompted by the willingness to ease first time adoption or implementation burden of specific jurisdictions. Rate regulated entities is one of those examples. IFRS should always start first from principles.

Future meeting

The next EFRAG-IASB Joint meeting will take place on Friday 26 November 2010.