



EFRAG UPDATE

November 2018

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.

PUBLICATIONS

Discussion Paper

On 27 November, EFRAG issued its Discussion Paper *Non-exchange Transfers ('NETs'): A role for societal benefit?* exploring the accounting for transfers in which an entity receives (or gives) value without directly giving (or receiving) approximately equal value in exchange. Comments are requested by 30 April 2019.

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

Bulletins

On 1 November, EFRAG issued two bulletins to help constituents better understand the IASB's Discussion Paper *Financial Instruments with Characteristics of Equity* and participate in the debate on it. Due to the nature of the bulletins, EFRAG has not included questions to constituents. However, constituents may provide their comments by 3 December 2018.

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

Letter to the European Commission

On 28 November, EFRAG sent a letter to the European Commission (EC) in response to the second phase (the possible solutions phase) of the EC's request for advice on *Equity Instruments - Impairment and Recycling*. The letter was published on EFRAG's website on 30 November 2018.

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

OPEN CONSULTATIONS

Title and description	Closing date
EFRAG Draft Comment Letter on the IASB DP/2018/1 <i>Financial Instruments with Characteristics of Equity</i>	3 December 2018
EFRAG's Discussion Paper <i>Non-exchange Transfers ('NETs'): A role for societal benefit?</i>	30 April 2019

For more information please see [EFRAG's consultations page](#).



EFRAG BOARD

Webcast Meeting

The EFRAG Board met on [22 November](#) and discussed the following topics:

IFRS 17 Insurance Contracts

The EFRAG Board considered an update on developments in relation to IFRS 17.

The EFRAG Board decided to consider at its meeting on 18 December 2018 whether, and if so how, EFRAG should be proactive prior to the IASB's tentative decisions on the areas of IFRS 17 that might be amended.

EFRAG Research project *Equity Instruments - Impairment and Recycling*

The EFRAG Board approved Phase 2 of the technical advice to the EC as requested in their letter of 29 May 2017. The technical advice letter was sent to the EC on 28 November 2018.

EFRAG Research project *Equity Instruments – Research on Measurement*

The EFRAG Board approved the project plan and asked EFRAG TEG, and appropriate EFRAG Working Groups, to provide input into the development of a paper for consultation that identifies options for alternative measurement models and the advantages and disadvantages of each.

November 2018 written procedures

The EFRAG Board has not approved any documents using written procedures in November.

Expected December 2018 written procedures

The EFRAG Board is expected to approve the following document, using written procedures in December:

- EFRAG's Draft Endorsement Advice on the IASB's Publication *Definition of Material (Amendments to IAS 1 and IAS 8)*

EFRAG TECHNICAL EXPERT GROUP (TEG)

Meeting

EFRAG TEG met on [29 November](#) and discussed the following topics:

IFRS 17 Insurance Contracts

EFRAG TEG received an update on developments on possible amendments to IFRS 17 *Insurance Contracts*, including the work of the IASB. No decisions were taken at the meeting.

IASB Publication *Definition of Material (Amendments to IAS 1 and IAS 8)*



EFRAG TEG unanimously agreed to recommend to the EFRAG Board a positive draft endorsement advice and invitation to comment, subject to some drafting improvements, for approval by written procedure.

EFRAG Research Project Equity Instruments – Research on Measurement

EFRAG TEG discussed possible alternative measurement models for equity instruments in the context of the third phase of its research on the potential effects on long-term investment of IFRS 9's requirements on accounting for equity and equity like instruments.

Members noted the limitations of the various alternative measurements. Some members suggested that certain of the alternatives, such as the linked approach, would only work only in limited circumstances.

No decisions were taken at the meeting. Discussions will continue at the EFRAG TEG meeting in December 2018.

EFRAG Research Project Accounting for pension plans with asset-return promise

EFRAG TEG discussed various aspects of forthcoming EFRAG Discussion Paper and, in particular provided suggestions to improve its clarity and to ensure that it is sufficiently detailed. The alternative approaches being considered in Discussion Paper include a capped asset return approach, a fair value approach and a fulfilment value approach.

No decisions were taken at the meeting. Discussions will continue at a future meeting.

EFRAG CFSS AND EFRAG TEG MEETING

EFRAG TEG and EFRAG Consultative Forum of Standard Setters (EFRAG CFSS) met on [28 November](#) and discussed the following topics:

IASB Project Better Communication - Primary Financial Statements

EFRAG TEG and EFRAG CFSS received an update of the IASB's tentative decisions on this project and discussed their potential effects on financial reporting.

Members generally supported the IASB's efforts to bring more comparability through the introduction of new subtotals, such as operating profit, and introducing more discipline on the use of management performance measures. However, members acknowledged the difficulties of applying some of the proposed additional subtotals to conglomerates and specific industries, such as financial institutions.

Members also noted that companies tend to use many different management performance measures, which often change over time, and highlighted the risks of disclosure overload and increased costs to preparers if the scope of the IASB's proposals was too wide.

IASB Project Management Commentary Practice Statement

EFRAG TEG and EFRAG CFSS discussed the IASB Staff's suggested approach regarding the application of materiality and the principles for preparing a management. Members made the following comments:

- More clarity on the objective and content areas of the Management Commentary is needed before discussing the application of materiality or the principles to apply in its preparation.

- The linkage (or coherence) principle is important but it should not be considered to encompass completeness which should be recognised as a principle in its own right for the purpose of the Management Commentary.
- Guidance on the application of materiality is welcomed but the suggested two steps would not necessarily need to be followed sequentially.
- The extent to which preparers should be responsible for achieving comparability requires further consideration.

EFRAG Research Project *Business Combinations Under Common Control*

EFRAG TEG and EFRAG CFSS discussed whether a current value measurement approach based on the acquisition method in IFRS 3 *Business Combinations* should be applied to all or only some business combinations under common control ('BCUCC') that affect non-controlling shareholders in the receiving entity. Members also considered possible approaches to distinguish between such transfers, if a current value approach is to be applied to only some BCUCC affecting non-controlling interest.

Most members supported the application of a current value approach to some transactions affecting non-controlling interest, however, there was no clear view as to how the distinction should be made. Some suggestions were made on how the information needs of non-controlling shareholders could be considered. Some members thought that non-controlling shareholders should not be given greater prominence than other primary users of financial statements. Members generally considered that the decision to apply the acquisition method or a predecessor method should be principle-based and did not agree with the proposal to use the relative size of the non-controlling interest as the basis for distinguishing between the methods.

IASB Research Project *Goodwill and Impairment*

EFRAG TEG and EFRAG CFSS discussed disclosure proposals being developed by the IASB staff on the accounting for goodwill and impairment, and whether amortisation of goodwill should be reintroduced.

There was broad support for the IASB to consult on the reintroduction of amortisation of goodwill and to explore ways to determine an amortisation period that could reflect the consumption of economics benefits arising from acquired goodwill. Members discussed some possible amortisation approaches, but generally acknowledged that the amortisation period would be a significant challenge. Members understood the request from users for improved disclosure on the rationale of a business combination and its subsequent success, but noted the need to examine how this could be achieved.

IASB Research Project *Financial Instruments with Characteristics of Equity*

EFRAG TEG and EFRAG CFSS received an update on EFRAG's outreach activities on the IASB Discussion Paper *Financial Instruments with Characteristics of Equity*.

Members shared the concerns expressed by participants in the outreach events on the use of new terminology, which risks disrupting current practice, and on the 'amount feature' and its focus on the claim on liquidation. They also shared participants' views that there is a need to improve current disclosures on claims, particularly on equity instruments.

IASB Research Project *Pension Benefits that Depend on Asset Returns*

EFRAG TEG and EFRAG CFSS discussed an approach being explored in the IASB's research project i.e. capping the rate at which the benefits that depend on asset returns are projected using the high-quality corporate bond rate. Some members considered that the project would not solve all measurement



inconsistencies. Some questioned whether the scope was clear enough. Nevertheless, members indicated that the IASB's project was worth exploring as a short-term solution.

Fitness check on the EU framework for public reporting by companies

EFRAG TEG and EFRAG CFSS received a presentation from the staff of the European Commission on the Summary Report of the Public Consultation on the Fitness Check on the EU framework issued in end October 2018.

European Corporate Reporting Lab at EFRAG

EFRAG TEG and EFRAG CFSS received an update on the activity of the European Corporate Reporting Lab following the first meeting of its Steering Group on 27 November 2018.