

Summary of EFRAG meetings held in August and September 2012

On 29 August 2012, EFRAG held a meeting by public conference call to discuss:

- IASB Project *Annual Improvements to IFRSs* (2009 – 2011 Cycle)
- IASB Project *Transition Guidance* (proposed amendments to IFRS 10)

From 5 to 7 September 2012, EFRAG held its monthly meeting. The following topics were discussed during the monthly meeting:

- IASB Project *Annual Improvements to IFRSs* (2010 – 2012 Cycle)
- Educational Session on evolution of prudential ratios
- IASB Project *Financial Instruments*
- IFRS Interpretations Committee Rejection Notice on Greek Government Bonds
- IFRS Interpretations Committee Project *Accounting for the Loss of Control of a Group of Assets or a Subsidiary*
- IASB Project *Post-implementation Reviews*
- IASB Project *Emission Trading Schemes*
- EFRAG Proactive Project *Separate Financial Statements*
- EFRAG Proactive Project *Business Combinations under Common Control*
- IFRS Interpretations Committee Project *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*
- EFRAG Proactive Project *Disclosure Framework for the Notes to the Financial Statements*
- Canadian Institute of Chartered Accountants Paper *Toward a Measurement Framework for Financial Reporting by Profit-Oriented Entities*
- Eumedion Position Paper *Full Consolidation of Partly Owned Subsidiaries Requires Additional Disclosure*
- IASB Project *Amortised Cost and Impairment of Financial Assets*

Highlights

Endorsement Advices

IASB Project *Annual Improvements to IFRSs* (2009 – 2011 Cycle)

EFRAG finalised its Endorsement Advice to the European Commission and the Effects Study Report on *Annual Improvements to IFRSs 2009-2011 Cycle* (‘the Amendments’) for use in the European Union and the European Economic Area (page 2). EFRAG supports the adoption of the Amendments and recommends their endorsement.

IASB Project *Transition Guidance* (proposed amendments to IFRS 10)

EFRAG finalised its Endorsement Advice to the European Commission and the Effects Study Report on *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to IFRS 10, IFRS 11 and IFRS 12) ('the Amendments') for use in the European Union and the European Economic Area (page 3). EFRAG supports the adoption of the Amendments and recommends their endorsement.

Notwithstanding the positive recommendation that the Amendments meet the endorsement criteria, and in order to align the mandatory effective date of the Amendments with the effective date of IFRS 10, IFRS11 and IFRS 12, EFRAG's recommendation is to defer the mandatory effective date of the Amendments from 1 January 2013 to 1 January 2014, with early adoption permitted.

Comment LettersIASB Project *Annual Improvements to IFRSs* (2010 – 2012 Cycle)

EFRAG finalised its final comment letter to the IASB on the Exposure Draft *Annual Improvements to IFRSs* (2010 - 2012 Cycle) (page 3).

EFRAG agrees with most of the proposals in the Exposure Draft and with their objectives but EFRAG is concerned about the amendments to IFRS 3 *Business Combinations* and IAS 12 *Income Taxes*.

IFRS Interpretations Committee Project *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*

EFRAG finalised its final comment letter to the IASB on the IFRS Interpretations Committee Draft Interpretation on *Levies Charged by Public Authorities on Entities that Operate in a Specific Market* ('the Interpretation') (page 6).

In its final comment letter, EFRAG asked the IFRS Interpretations Committee to address the concerns about the scope of the Interpretation; and encouraged it to assist the IASB in addressing the accounting for payments to public authorities in a comprehensive way by taking into account the specific characteristics of such payments and the current requirements in IAS 12. The outcome of this work should be used in deciding on how to amend existing IFRS in order to provide more useful information to users in annual and interim financial reports.

IASB Project *Annual Improvements to IFRSs* (2009 - 2011 Cycle)

At its public conference call on 29 August 2012, EFRAG discussed and approved its final endorsement advice on the IASB's *Annual Improvements to IFRSs 2009-2011 Cycle* (the 'Amendments').

The Amendments reflect issues discussed by the IASB during the project cycle that began in 2009, and that were published in June 2011 as Exposure Draft ED/2011/2 *Improvements to IFRSs*. The amendments are effective for annual periods beginning on or after 1 January 2013, although entities are permitted to apply them earlier.

EFRAG has issued its Endorsement Advice Letter and Effects Study Report relating to the endorsement of the Amendments for use in the European Union and European Economic Area. EFRAG supports the

Amendments and has concluded that they meet the technical requirements of endorsement. EFRAG has also concluded that the benefits to be derived from implementing the Amendments are likely to outweigh the costs involved.

Accordingly, EFRAG has published its Endorsement Advice Letter and Effects Study Report relating to the endorsement of the *Annual Improvements to IFRSs 2009–2011 Cycle* on its website.

IASB Project *Transition Guidance* (proposed amendments to IFRS 10)

At its public conference call on 29 August 2012, EFRAG has approved and issued its Endorsement Advice and Effects Study Report for the *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to IFRS 10, IFRS 11 and IFRS 12) (‘the Amendments’) for use in the European Union and European Economic Area. This is the final step to complete the due process regarding these Amendments that have been issued the on the 28 June 2012.

The Amendments provide relief that is limited to the period when IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* are first applied.

The objective of the Amendments is to clarify the IASB’s intention when first issuing the transition guidance in IFRS 10. The Amendments also provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. The Amendments are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

EFRAG supports the adoption of the Amendments and recommends their endorsement. Notwithstanding the positive recommendation that the Amendments meet the endorsement criteria, and in order to align the mandatory effective date of the Amendments with the effective date of IFRS 10, IFRS11 and IFRS 12, EFRAG’s recommendation is to defer the mandatory effective date of the Amendments from 1 January 2013 to 1 January 2014, with early adoption permitted.

Accordingly, EFRAG has published its Endorsement Advice Letter and Effects Study Report relating to the endorsement of the Amendments on its website.

IASB Project *Annual Improvements to IFRSs (2010 - 2012 Cycle)*

At its September 2012 meeting, EFRAG discussed and approved its final comment letter to the IASB on the Exposure Draft *Annual Improvements to IFRSs (2010 - 2012 Cycle)* that was issued in May 2012.

In its letter to the IASB, EFRAG agrees with most proposals in the Exposure Draft and with the objective they are trying to achieve but it is concerned about the amendments to:

- IFRS 3: EFRAG believes that the IASB should also propose consequential amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and reiterates its request to amend IAS 39 to consider the accounting for own credit risk on financial liabilities measured at fair value in IFRS 9 *Financial Instruments*.

- IAS 12: EFRAG understands that the objective of the amendments is to clarify the present wording in the standard. However, EFRAG has in its due process collected evidence that different understandings of the basic mechanics of IAS 12 may lead to different interpretations of the current requirements. Furthermore the amendment is triggered by a specific and particular request while the amendments are to be implemented more widely. Therefore, EFRAG encourages the IASB to perform a thorough analysis of the consequences before making the decision whether to finalise the proposed amendments. If so, the IASB should improve the drafting of the amendments so that they will be understood consistently.

In addition, EFRAG believes the proposed amendments increase the already lengthy disclosures required by IFRS. Therefore, it believes that the IASB should perform a specific assessment before proposing future amendments to IFRS.

Accordingly, EFRAG has published its final comment letter on its website.

Educational session on evolution of prudential ratios

At its September 2012 meeting, EFRAG staff delivered an educational session to EFRAG TEG members on the evolution of prudential ratios. The purpose of the session was to provide an overview of the many interactions between IFRS standards and the regulatory field for financial institutions. The purpose was to create an understanding of the effects of accounting beyond the pure accounting framework.

IASB Project *Financial Instruments*

At its September 2012 meeting, EFRAG received an update about the IASB's projects *Limited Modifications to IFRS 9* and Accounting for Macro Hedging.

In May 2012, the IASB tentatively agreed to introduce fair value through other comprehensive income (FV-OCI) as a measurement category for eligible debt instruments. Among other topics, EFRAG TEG members discussed the extension of the current fair value option in IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments* to the FV-OCI measurement and the reclassification mechanics agreed by the IASB. EFRAG also considered the IASB's initial views to include an equity model book in the macro hedging project.

EFRAG TEG members asked EFRAG staff to prepare for the discussion of the IASB expected macro-hedge Discussion Paper, including analyses of what the different directions investigated mean in practice, using as benchmarks existing risk management practices and what is being done in application of IAS 39 presently, whether the carve-out option is used or not.

EFRAG did not take any decisions at this meeting.

IFRS Interpretations Committee Rejection Notice on Greek Government Bonds

At its September 2012 meeting, EFRAG discussed additional comments received from constituents on EFRAG's draft comment letter on the Interpretations Committee rejection notice in relation to the restructuring of Greek Government Bonds.

EFRAG did not take any decisions at this meeting.

IFRS Interpretations Committee Project *Accounting for the Loss of Control of a Group of Assets or a Subsidiary*

At its September 2012 meeting, EFRAG TEG received an update on the discussions that have been held so far by the IFRS Interpretation Committee and the IASB on the existing inconsistency between IAS 27 *Consolidated and Separate Financial Statements* and SIC-13 *Jointly Controlled Entities* in dealing with the loss of control of a subsidiary that is contributed to a jointly controlled entity.

EFRAG TEG members held an initial discussion of the forthcoming proposals and expressed their support to the responsiveness of the IFRS Interpretation Committee and the IASB in addressing the issue and to remove diversity in practice; however, EFRAG was not convinced that there should be a different accounting treatment for contributions of businesses and contributions of other non-monetary assets.

In addition, EFRAG believed the IASB should also address contributions made to joint operations and provide guidance on the accounting in the separate financial statements.

EFRAG did not take any decisions at this meeting.

IASB Project *Post-implementation Reviews*

The IASB has launched a Request for Information as part of its post-implementation review of IFRS 8 *Operating Segments*.

EFRAG received a briefing from the EFRAG staff on EFRAG's evidence gathering activities that will form the basis of a response to the IASB. These evidence gathering activities include outreach events and two surveys, one for preparers/auditors and one for users that were launched on the EFRAG website in July.

The outreach events are held jointly with the IASB and are being organised in association with National Standard Setters and user groups across Europe.

IASB Project *Emission Trading Schemes*

At its September 2012 meeting, EFRAG resumed the discussion of the paper issued by the ANC dealing with proposals for accounting of an emissions trading scheme, reflecting companies' business models. EFRAG received a presentation from a representative of the European Commission DG Climate Action on the EU Emissions Trading System and how the market and regulation is currently evolving.

The objective of the session was to assess the different accounting issues around emissions trading schemes, based on which EFRAG staff will prepare a draft comment letter.

EFRAG TEG members were generally supportive that specific guidance is needed for appropriate accounting for emission rights, and that accounting should be based on an economic approach reflecting two different business models, one for entities using the rights to comply with their obligations (emitters), and one for entities trading on the market. EFRAG TEG members noted that emission rights have a lot in common with commodities. Some EFRAG TEG members however noted that it may be difficult to maintain two separate models for emitters that also hold rights for trading.

EFRAG TEG members debated possible accounting for free allowances, and the measurement of the liability. It was noted that users' information needs should be considered to develop an accounting model that provides relevant information.

EFRAG staff will assess the specific challenges of maintaining two separate business models in practice and continue in the analysis of the accounting issues.

EFRAG Proactive Project *Separate Financial Statements*

In relation to EFRAG's project on separate financial statements, the project team, which consists of the Italian, Spanish and Dutch standard setters and EFRAG, considered that approaching the users was a necessary step to meet the project's objectives and proposed to EFRAG TEG members a European Outreach to Users. The proposal was to conduct the outreach through a questionnaire, interviews and possibly workshops.

EFRAG discussed various aspects of the outreach such as approach, timing, participants, and proposed questionnaire, and provided a number of recommendations on how to improve the outreach to users. The findings from the outreach will primarily serve as input to EFRAG's analysis in the project.

EFRAG Proactive Project *Business Combinations under Common Control*

At its September 2012 meeting, EFRAG TEG discussed the draft feedback statement on the comment letters received on EFRAG's Proactive Discussion Paper *Business Combinations under Common Control* ('the DP') together with recommendations for the next phase of the project.

EFRAG approved the draft feedback statement for publication subject to drafting issues being addressed. EFRAG TEG members also suggested EFRAG staff to outreach the respondents on the DP to gather more information about the real life examples of BCUCC transactions. Also staff should perform some additional work, including clarification of the scope of the project. The additional input will be considered in considering the way forward with the project.

IFRS Interpretations Committee Project *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*

At its September 2012 meeting, EFRAG discussed a final comment letter on the Draft Interpretation issued by IFRS Interpretations Committee in May 2012 on levies charged by public authorities on entities that operate in a specific market (‘the Interpretation’).

Feedback received from constituents was mixed. Many expressed some concern with the scope of the Interpretation, especially about the exclusions of levies due only when a minimum revenue threshold is reached.

Constituents generally agreed that the consensus of the Interpretation was consistent with the principles in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, but many argued that the outcome may not provide useful information in interim reports. Those constituents argued that annual levies are in substance due to the entity’s operation over a reporting period and should therefore be recognised over that period.

EFRAG approved a final comment letter in which they asked the IFRS Interpretations Committee to address the concerns about the scope of the Interpretation; and encouraged the IFRS Interpretations Committee to assist the IASB in addressing the accounting for payments to public authorities in a comprehensive way by taking into account the specific characteristics of such payments and the current requirements in IAS 12. The outcome of this work should be used in deciding on how to amend existing IFRS in order to provide more useful information to users in annual and interim financial reports.

Accordingly, EFRAG has published its final comment letter on its website.

EFRAG Proactive Project *Disclosure Framework for the Notes to the Financial Statements*

The EFRAG TEG chairman invited Melanie McLaren and Deepa Raval to introduce the latest draft of the FRC paper *Thinking about disclosures in a broader context*. Following the publication of the joint EFRAG/ANC/FRC paper in July, the FRC plans to issue this paper because they believe that, in developing a Framework, it is important to consider disclosures in the financial reporting as a whole (and not limit the discussions to the notes of the financial statements). The FRC aims at publishing the paper in October.

EFRAG TEG members discussed if EFRAG should issue the paper jointly with the FRC. EFRAG staff provided a short analysis of the overlap between the two papers. Overall EFRAG TEG members welcomed the latest revised version of the FRC paper as being much improved; they reiterated their interest in supplementing previous joint efforts in having a discussion on placement criteria for information in different components of the financial reporting. However, they noted that the FRC paper should not repeat developments which are discussed in the joint paper, but rather refer to them, so that EFRAG’s efforts in partnership with National Standard Setters in Europe appear well coordinated and cohesive, without risking creating confusion among the public.

FRC staff welcomed suggestions to make the link between the two documents more understandable, for instance by using cross-reference and sign posting.

EFRAG will wait for a new revised draft of the document and resume discussion on the possible endorsement.

Canadian Institute of Chartered Accountants Paper *Toward a Measurement Framework for Financial Reporting by Profit-Oriented Entities*

The Canadian Institute of Chartered Accountants (CICA) has published, at the request of Canada's Accounting Standards Board, a paper to stimulate the study and debate on the development of a measurement framework. The paper proposes that Current Market Value is the most relevant measurement basis when it is practicable of faithful representation. In many cases, however, Current Market Value is not practicable of faithful representation, and in these cases other measurement bases should therefore be applied.

At its September 2012 meeting, EFRAG considered the paper. Overall EFRAG's preliminary view is that the paper does not include persuasive arguments for why current market value would result in the most useful information in all cases where it is practicable of faithful representation. To the contrary, EFRAG discussed why this would not be the case. Nevertheless EFRAG noted that the paper included useful considerations. EFRAG appreciated for example that the paper considered the stewardship role of financial statements, attempted to depict the transformation process of input into outputs that a business is about and favoured inputs to be measured on input markets relevant to the entity

At its next meeting, EFRAG intends to approve a draft comment letter on the paper.

Eumediton Position Paper *Full consolidation of partly owned subsidiaries requires additional disclosure*

At its September 2012 meeting, EFRAG TEG members received a presentation from Martijn Bos on the Eumediton Position Paper *Full Consolidation of Partly Owned Subsidiaries Requires Additional Disclosure*. EFRAG sympathized with the difficulty highlighted in the paper and outlined how EFRAG's proactive efforts on the disclosure framework were relevant to the issue.

IASB Project *Amortised Cost and Impairment of Financial Assets*

At its September 2012 meeting, EFRAG received an update on the IASB proposed expected loss impairment model and the latest developments on convergence between the IASB and FASB. EFRAG TEG members also received an update about the feedback received from its constituents and the interaction between impairment under IFRS and prudential regulation for banks.

EFRAG did not take any decisions at this meeting.