



# EFRAG UPDATE

MARCH 2019

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

### Final Endorsement Advice

On 28 March, EFRAG issued its final endorsement advice on the IASB Publication *Definition of a Business (Amendments to IFRS 3)*.

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

### EFRAG Conference *Fostering Innovation in Corporate Reporting*

On 5 March, the newly-formed European Corporate Reporting Lab@EFRAG (the 'European Lab') held a high-level conference *Fostering Innovation in Corporate Reporting*. European Commission Vice-President Valdis Dombrovskis welcomed the European Lab's role in supporting the EC Action Plan on Sustainable Finance.

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

## OPEN CONSULTATIONS

Title and description	Closing date
EFRAG Secretariat Working Paper: Early-stage Analysis - Potential Effects of the IASB Discussion Paper <i>Financial Instruments with Characteristics of Equity</i>	1 April 2019
EFRAG's Draft Comment Letter on the IASB ED/2018/2 <i>Onerous Contracts - Cost of Fulfilling a Contract - Proposed amendments to IAS 37</i>	5 April 2019
EFRAG's Discussion Paper <i>Non-exchange Transfers</i>	30 April 2019

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



## EFRAG BOARD

### Meeting

The EFRAG Board did not meet in March. The EFRAG Board's next meeting is 4 April 2019.

### March 2019 written procedures

The EFRAG Board approved the following document, using written procedures:

- EFRAG's Endorsement Advice on the IASB Publication *Definition of a Business (Amendments to IFRS 3)*.

### Expected April 2019 written procedures

The EFRAG Board is expected to approve the following documents, using written procedures in April:

- Questionnaire on EFRAG Research Project *Equity Instruments – Research on Measurement*;
- EFRAG's Final Comment Letter on IASB Exposure Draft ED/2018/2 *Onerous Contracts – Costs of Fulfilling a Contract (Proposed Amendments to IAS 37)*.

## EFRAG TECHNICAL EXPERT GROUP (TEG)

### Meeting

EFRAG TEG met on [20-21 March 2019](#) and discussed the following topics:

#### **EFRAG Research Project *Pensions***

The present EFRAG TEG members unanimously agreed to recommend EFRAG's Discussion Paper *Accounting for Plans with Asset-return Promise* for approval by the EFRAG Board.

#### **IFRS 17 *Insurance Contracts* (CFO Forum presentation)**

Members of the CFO Forum presented EFRAG TEG with an explanation of their views on the current status of the issues of concern to the CFO Forum in relation to the IASB's deliberations on the following topics: Transition, CSM amortisation and Presentational issues. For each of the topics, EFRAG TEG was provided with the CFO Forum's views on the principal impact should the IASB proceed to amend IFRS 17 in line with its tentative decisions without any further changes.

No decisions were taken at the meeting.

#### **IFRS 17 *Insurance Contracts***

EFRAG TEG members considered the paper to be discussed at the upcoming Accounting Standards Advisory Forum meeting; discussed the answers from EFRAG IAWG members to questions raised at the previous EFRAG TEG meeting and considered the input from EFRAG IAWG in relation to the January 2019 IASB tentative decisions.

No decisions were taken at the meeting.



### **IASB Publication *Definition of a Business (Amendments to IFRS 3)***

EFRAG TEG members present unanimously agreed to recommend a final endorsement advice supporting the Amendments, for consideration by the EFRAG Board.

### **EFRAG Research Project *Variable and Contingent Consideration***

EFRAG TEG discussed the scope of its research project on variable and contingent consideration and considered an example including variable and contingent consideration. EFRAG TEG members thought that an important element would be to consider the meaning of the 'cost' of an asset.

No decisions were taken at the meeting.

### **EFRAG Research Project *Equity Instruments – Research on Measurement***

EFRAG TEG members considered the questionnaire and examples provided for the meeting as well as the EFRAG Staff Background Paper and provided suggestions for improvement.

No decisions were taken at the meeting.

### **Next meeting**

EFRAG TEG will next meet on 16-17 April 2019.

## **EFRAG CFSS AND EFRAG TEG MEETING**

EFRAG TEG and the EFRAG Consultative Forum of Standard Setters (EFRAG CFSS) met on [20 March 2019](#) and discussed the following topics in preparation for the forthcoming Accounting Standards Advisory Forum meeting:

### **IASB Exposure Draft ED/2018/2 *Onerous Contracts – Costs of Fulfilling a Contract (Proposed Amendments to IAS 37)***

EFRAG TEG and EFRAG CFSS discussed the IASB's proposals to amend the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* regarding the assessment of whether a contract is onerous. EFRAG TEG and EFRAG CFSS supported EFRAG's preliminary views in the EFRAG draft comment letter issued on 25 January 2019.

### **IASB Exposure Draft *Accounting Policy Changes (Amendments to IAS 8)***

EFRAG TEG and EFRAG CFSS discussed possible ways forward for the IASB project. Members reaffirmed their disagreement to the original proposal to introduce a distinction between voluntary changes in accounting policies resulting from agenda decisions and other voluntary changes. Members expressed mixed views as to the best way forward and whether the IASB should abandon the project or consider extending its scope and allow a cost-benefit assessment for all voluntary changes in accounting policies.

### **IASB Project *Disclosure Initiative – Targeted Standards-level Review of Disclosures***

EFRAG TEG and EFRAG CFSS considered the feedback received by the IASB from its outreach with users. Members appreciated the IASB's approach to reach out to users to understand their needs. However, they suggested that an extensive outreach to a broader set of stakeholders other than users would be needed. Members noted that an analysis of the



differences between existing and suggested disclosure requirements would help them to better understand the impact of the changes on different constituents. Some members suggested that the project should distinguish between financial institutions and other entities.

Finally, EFRAG TEG and EFRAG CFSS suggested a more holistic approach for sensitivity analysis by looking first at the interactions with the requirements in IAS 1 *Presentation of Financial Statements*, and then at the guidance in the specific IFRS Standards.

### **IASB Project *Management Commentary Practice Statement***

EFRAG TEG and EFRAG CFSS discussed a number of issues raised by the Management Commentary Consultative Group.

Members supported the provision of principle-based guidance on the use of cross-references between the Management Commentary and other reports but suggested that the IASB reconsiders the issues that were identified when similar guidance was considered as part of the *Principles of Disclosure* project.

Regarding the tension between the concept of ‘through the eyes of Management’ with the notions of neutrality and the usefulness of information for users, members generally agreed that the concepts are not necessarily incompatible. Some members suggested to consider referring to terms such as ‘balanced’ or ‘unbiased’ (as either alternatives or accompanying guidance to the concept of neutrality).

Members had mixed views on the proposed requirements to include in the Management Commentary all forecasts and targets that are published elsewhere and a comparison of these to actual results in subsequent periods. Some members expressed concerns about broadening the scope of information included in the Management Commentary.

EFRAG TEG and EFRAG CFSS expressed mixed views on the proposed requirements for additional tax disclosures. Members acknowledged that information about the sustainable effective tax rate could be important for users but noted that this is only one element of an entity’s future performance and questioned the reasons for focusing on income taxes in particular.

### **IASB Research Project *Business Combinations under Common Control***

EFRAG TEG and EFRAG CFSS discussed the approach to accounting for business combinations under common control (BCUCC) between wholly-owned entities. Members expressed mixed views. Some preferred the application of the acquisition method as it would provide information about the value transfer of the transaction. Other members considered that a predecessor method would provide better information for estimations of future margins.

EFRAG TEG and EFRAG CFSS questioned the completeness of the IASB staff analysis of the information needs of debt providers. It was considered that more information about the needs of debt providers was required to determine whether the acquisition or predecessor approach would provide the most useful information.

### **IASB Research Project *Provisions***

EFRAG TEG and EFRAG CFSS members discussed the IASB’s Research Project *Provisions*. The members supported the IASB’s initiative. There were mixed views, however, as to whether the definition of a liability would need to be updated in order to address the concerns with IFRIC 21 *Levies*. Members also suggested that the IASB should clarify the role of detection



risk and own credit risk in the measurement of provisions and the impact of economic benefits in assessing whether a contract is onerous.

### **IASB Research Project *Subsidiaries that are SMEs***

EFRAG TEG and EFRAG CFSS discussed the IASB feasibility study on whether subsidiaries that are SMEs should be permitted to use the recognition and measurement requirements in IFRS Standards together with reduced disclosure requirements based on the *IFRS for SMEs*. Members noted that the interest in such a standard in the European Union would vary across jurisdictions as some allow the use of IFRS Standards for the individual financial statements and some do not, and some have already developed reduced disclosure standards in national GAAP. Some members also questioned whether the *IFRS for SMEs* would be the best starting point to develop such reduced disclosure requirements. Lastly some members questioned how an IFRS Standard, if published, would affect the labelling of the information and whether this would create a third tier of reporting standards (alongside IFRS Standards and the *IFRS for SMEs*).

### **IFRS Foundation *Due Process Handbook Review***

EFRAG TEG and EFRAG CFSS discussed the proposed amendments to the IFRS Foundation Due Process Handbook. Members raised some concerns regarding the definition of “sufficient time” needed to implement the Agenda Decisions by entities. Members also suggested that the nature of an IASB Board Agenda Decision, and the process and circumstances for its use, are not clear.

### **ANC Presentation *Accounting treatment of Initial Coin Offerings and Tokens in France***

The ANC (the French accounting standards authority) presented its recently developed accounting regulation for tokens issued in Initial Coin Offerings (ICOs) in France. The purpose of the regulation was to provide a principles-based accounting framework for issuers and holders of tokens in response to a request from the French regulator in the context of the recently enacted French PACTE Law on ICO’s. At this stage, the accounting regulation did not address token platforms due to the need for further legal clarification.

EFRAG CFSS and EFRAG TEG expressed interest in the ANC’s initiative and noted that its purpose was to provide an accounting framework for tokens under French GAAP, rather than issue a detailed set of requirements.

### **AASB Presentation *IFRS Practice Statement 2: Making Materiality Judgements to reporting climate-related and other emerging risks***

EFRAG TEG and EFRAG CFSS considered the Joint Bulletin issued by the Australian Accounting Standards Board and the Australian Auditing and Assurance Standards Board providing guidance for the assessment of the financial statement materiality of climate-related and other emerging risks under the Australian equivalent of IFRS Practice Statement 2 *Making Materiality Judgements*.

Members generally agreed with the reasons for developing the Joint Bulletin although some members wondered whether the Practice Statement was the most appropriate ‘tool’ to encourage better disclosures in this area. Some members argued that this type guidance could be applied to many other types of emerging risks and not only to climate risk.

### **AASB Presentation *Perspectives on IAS 36: A Case for Standard Setting Activity***



EFRAG TEG and EFRAG CFSS discussed the results of the outreach performed by the Australian Accounting Standards Board (AASB) in relation to the impairment requirements of IAS 36 *Impairment of Assets* and its recommendations to the IASB.

Members appreciated the AASB's contribution to the debate but did not however support a fundamental re-opening of IAS 36, or the single model approach for assessing recoverable amount. Members acknowledged that allocation of goodwill to cost generating units is complex for certain sectors and additional guidance might be helpful. Some members commented on the IASB's tentative decision to consult on the possible re-introduction of amortisation of goodwill.

#### **Next meeting**

EFRAG TEG and EFRAG CFSS will next meet on 3 July 2019.