

February 2012

Summary of EFRAG meetings held in January and February 2012

On 26 January 2012, EFRAG held a conference call to discuss its draft comment letter on ESMA Consultation Paper *Considerations of Materiality in Financial Reporting*.

On 31 January and 8 February 2012, EFRAG held conference calls to finalise its draft endorsement advices on IFRS 10 *Consolidation*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, revised IAS 27 *Separate Financial Statements* and revised IAS 28 *Investment in Associated and Joint Ventures*.

From 22 to 24 February 2012, EFRAG held its monthly meeting. The following topics were discussed during the monthly meeting:

- IASB Project *Insurance Contracts*
- IASB Exposure Draft *Revenue from Contracts with Customers*
- IASB Project *Annual Improvements*
- IFRS Interpretations Committee Project *Put options written over non-controlling interests*
- IASB Project *Macro Hedging*
- IASB Project *General Hedge Accounting*
- IASB Project *Leases*
- EFRAG Proactive project *Disclosure Framework for the Notes to the Financial Statements*
- EFRAG Proactive project *Considering the Effects of Accounting Standards*
- EFRAG Proactive Project *The Role of the Business Model in Financial Reporting*
- EFRAG Proactive project *Separate Financial Statements*

Highlights

Draft Endorsement Advices

EFRAG finalised its draft endorsement advices on IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28. EFRAG has come to a positive draft endorsement advice of the standards and amendments included in the package, albeit with a different mandatory effective date (i.e. 1 January 2014), with early application permitted. Comments on EFRAG's recommendations are requested by 11 March 2012.

EFRAG Update is published for the convenience of EFRAG's constituents. All conclusions reported are tentative and may be changed or modified at future meetings.

IASB Project Insurance Contracts

EFRAG received an update on the Insurance Contracts Phase II project and feedback from the EFRAG Insurance Advisory Working Group meeting on 21 February 2012. EFRAG will continue to follow the IASB redeliberations on the project.

IASB Exposure Draft *Revenue from Contracts with Customers*

At its February meeting, EFRAG received a preliminary report from the field-test on the Exposure Draft *Revenue from Contracts with Customers*. Among other things, the report stated that:

- it seemed as if some of the companies participating in the filed-test had difficulty in applying the requirements on how to unbundle contracts into performance obligations;
- the proposed requirements could result in less percentage-of-completion accounting for some of the companies participating in the field-test, in particular, when a right to payment for more than the entity's costs for performance completed to date did not exist.

Based on other parts of the report, EFRAG members noted that:

- the proposed requirements were difficult to apply in cases where it was impossible to provide a fair estimate of the stand-alone selling price for several performance obligations within a contract; and
- whether or not a contract has a financing component currently was assessed by some companies based on the pattern of cash in- and outflows and not, as proposed in the ED, by comparing the pattern of revenue recognition with the pattern of cash inflows.

IASB Project *Annual Improvements*

EFRAG received an update on the latest developments in the IASB Annual Improvements 2010-2012 project. An Exposure Draft on improvements to IFRSs (the ED) is expected to include the following amendments:

- IFRS 2 *Definition of vesting conditions* – the ED is expected to propose to amend the existing definitions of service and performance conditions in IFRS 2 to clarify how some issues discussed by the IFRS Interpretation Committee might be addressed without significantly modifying the existing requirements of the standard.
- IFRS 3 *Accounting for contingent consideration in a business combination* – the ED is expected to propose to remove perceived inconsistencies regarding the guidance on contingent consideration in a business combination.
- IFRS 8 *Aggregation of operating segments* – the ED is expected to propose to amend IFRS 8 to include a requirement to disclose a brief description of the operating segments that have been aggregated.
- IFRS 8 *Reconciliation of the total of reportable segments' assets to entity's assets* – the ED is expected to clarify that the reconciliation of the total of the reportable segments' assets should be disclosed only if a measure of segment assets is regularly provided to the chief operating decision-maker.
- IFRS 13 *Short-term receivables and payables* – the ED is expected to propose amending IFRS 13 to clarify that the IASB did not intend to change the current practice when it deleted the paragraph (B5.4.12) in IFRS 9 *Financial Instruments*, which allowed an entity to measure short-term receivables and payables with no stated interest rate at invoice amounts if the effect of discounting is immaterial.

- IAS 1 *Current/non-current classification of liabilities* – the ED is expected to propose to amend IAS 1 to clarify that, for an existing loan that is due within 12 months after the reporting date to be classified as non-current, it must be refinanced with the same lender, at the same or similar terms.
- IAS 7 *Classification of interest paid that is capitalised as part of the cost of an asset* – the ED is expected to clarify that the classification of payments of interest that are capitalised shall follow the classification of the underlying asset to which those payments were capitalised.
- IAS 12 *Recognition of deferred tax assets for unrealised losses on AFS debt securities* – the ED is expected to propose amending IAS 12 to clarify that a separate assessment should be made of each type of taxable profit if tax law specifically distinguishes a specific type of profit (e.g. capital gain and losses) from other types of taxable profit (combined assessment). Additionally, the amendments should clarify that an action that results in reversal of existing deductible temporary differences without creating or increasing taxable profit in the future, is not a tax planning opportunity; and finally that taxable profit against which realisation of a deferred tax asset is assessed, is the amount before reversal of deductible temporary differences.
- IAS 16/IAS 38 *Revaluation method – proportionate restatement of accumulated depreciation* – the ED is expected to propose to amend IAS 16 and IAS 38 to address concerns about the computation of the accumulated depreciation at the date of the revaluation as in instances in which the revalued amounts for the gross and net carrying amounts both reflect observable data, restatement of the accumulated depreciation is not proportionate to the change in the gross carrying amount of the asset.
- IAS 24 *Key management personnel* – the ED is expected to propose to amend IAS 24 to identify entities that provide key management personnel services, as a related party of the reporting entity; and to require the separate disclosure of fees paid to related parties in respect of these services.
- IAS 36 *Harmonisation of disclosure for value in use and fair value less costs to sell* – the ED is expected to propose to amend IAS 36 to remove an inconsistency in the disclosure requirements.

EFRAG held an initial discussion of the forthcoming proposals, and expressed tentative support for the amendments, subject to the final drafting of the ED, with one exception.

The proposed amendments to IAS 12 were challenged, as there might be unintended consequences arising from the broad scope of the amendments. A question was raised whether such amendments would meet the criteria to be included in the annual improvements to IFRSs. Further analysis will help EFRAG prepare its draft preliminary assessment of the change.

IFRS Interpretations Committee Project *Put options written over non-controlling interests*

EFRAG received an update on the latest developments in relation to the IFRS Interpretation Committee's project on put options written over non-controlling interests (NCI puts).

At its meeting in January 2012, the Committee recommended that the Board should address the diversity in accounting by proposing to amend IAS 27 *Consolidated and Separate Financial Statements* and IFRS 10 *Consolidated Financial Statements* to clarify that all changes in the measurement of the NCI put should be recognised in profit or loss.

EFRAG noted that there are several aspects of the accounting for NCI puts that need to be considered. Therefore, EFRAG concluded that, rather than considering the narrow question of whether changes in the

measurement of the NCI put should be recognised in profit or loss, the IASB should consider the broader context of these put options and the relevance of the resulting information.

EFRAG did not take any decisions at this meeting.

IASB Project *Macro Hedging*

EFRAG had an educational session on macro hedging. The key considerations for the development of the macro hedge accounting model were discussed.

EFRAG members did not make any decision during this session.

IASB Project *General Hedge Accounting*

EFRAG discussed its joint initiative with European Standard Setters and its coordination with the IASB to carry out a field-test on the review draft on general hedge accounting. This field-test will be conducted, before the final standard is published, through a written questionnaire, followed by individual interviews and possibly some workshops. EFRAG debated the purpose of the field-test, the tentative timetable, and the participants that would be most likely affected by the revised proposals.

EFRAG will continue to work closely with the European Standard Setters and the IASB.

IASB Project *Leases*

EFRAG received an update on the latest developments regarding the IASB and FASB joint project on Leases. The update focused on the proposals concerning lessee accounting.

EFRAG had a presentation from an industry representative. The presentation also considered business implications of the new proposals on lessor and lessee accounting.

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

EFRAG continued its discussion on the role of disclosures about risk in the notes to the financial statements. EFRAG debated the distinction between ‘risk’ and ‘measurement uncertainty’, and how these issues should be presented in the upcoming Discussion Paper.

EFRAG staff presented the results of preliminary retro-testing of the proposals on existing disclosures in a number of IFRS. EFRAG discussed some of the findings and advised that the results of the testing could serve as a means of illustrating the application of the proposals in the Discussion Paper.

EFRAG staff also outlined some proposals aimed at improving the way disclosures are organised and communicated in the financial statements. EFRAG noted that the overarching principle was to communicate relevant information. They also encouraged the staff to consider how technological developments (such as XBRL) will impact communication and accessibility of information.

EFRAG staff will continue to work on the project and expects to present a first draft of the Discussion Paper at the April meeting.

EFRAG Proactive project *Considering the Effects of Accounting Standards*

EFRAG continued formulating its recommendations in the light of comments received on the Discussion Paper *Considering the Effects of Accounting Standards* (the 'DP'), which was published in January 2011 by EFRAG and the UK Accounting Standards Board (UK ASB).

There was generally strong support from constituents that effects analyses should be further embedded in the standard setting process. In response to some of the concerns raised, EFRAG will stress, in its forthcoming position paper, the need for effects analyses. However, there should be little flexibility as to when the effects analyses are released, because the results need to be taken into account before a standard is finalised. Effect analyses should therefore not be simply an afterthought.

In formulating its position on the different aspects of effects analysis, EFRAG carefully considered the outcome of the public consultation (31 comment letters have been received on the DP). EFRAG and the UK ASB expect to issue a feedback statement and jointly publish a common position in due course. The UK ASB is expected to finalise its position on the DP at its meeting on 15 March.

EFRAG Proactive Project *The Role of the Business Model in Financial Reporting*

Following its decision in December 2011 that the project should be completed in a single phase, EFRAG discussed and generally agreed with the proposed methodology that might be used for the development of a discussion paper, which will address the role of the business model in financial reporting using alternative meanings of the term.

The project team will begin outlining the discussion paper and work with individual Advisory Panel members to prepare examples of business models that might be used in the discussion paper. The discussion paper is planned to be issued in the fourth quarter of 2012.

EFRAG Proactive Project *Separate Financial Statements*

EFRAG discussed the scope of the proactive project separate financial statements under IFRS and provided a number of recommendations on how the project should evolve. As part of the discussion, EFRAG clarified the scope of the project. The question this project should answer is, in EFRAG's view, whether current IFRSs lead to the provision of relevant information to users of separate financial statements. EFRAG also recommended that the project scope be limited to considering separate financial statements, (i.e. the parent company's annual accounts). The project would intend to identify areas where IFRSs do not

lead to useful or comparable financial reporting in those financial statements. If any of those areas affects the accounts of subsidiaries, those areas would also be dealt with in the project.