

## Summary of EFRAG meetings held in July 2012

On 2 July 2012 and 13 July 2012, EFRAG held a meeting by public conference call to discuss:

- IASB Project *Transition Guidance* (proposed amendments to IFRS 10)
- IFRS Interpretation Committee Draft Interpretation *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*
- IFRS Interpretations Committee Draft Interpretation *Put Options Written over Non-controlling Interests*
- IASB Request for Information *Comprehensive Review of IFRS for SMEs* (2012 - 2014 Cycle)

On 24 and 25 July 2012, EFRAG held its monthly meeting. The following topics were discussed during the monthly meeting:

- EFRAG Proactive Project *Business Combinations under Common Control*
- IFRS Interpretations Committee Rejection Notice on Greek Government Bonds
- IASB Request for Information *Comprehensive Review of IFRS for SMEs* (2012 - 2014 Cycle)
- IASB Project *Insurance Contracts*
- IASB Project *Leases*
- IASB Project *Investment Entities*
- IASB Project *Emission Trading Schemes*
- Canadian Institute of Chartered Accountants Paper *Toward a Measurement Framework for Financial Reporting by Profit-Oriented Entities*

## Highlights

### **Endorsement Advices**

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

EFRAG finalised its draft endorsement advice on the IASB's *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*) for use in the European Union and European Economic Area.

The comment deadline is 17 August 2012.

### **Comment Letters**

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

EFRAG finalised its draft comment letter to the IFRS Interpretations Committee (Interpretations Committee) Draft Interpretation DI/2012/1 *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*.

*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.

The comment deadline is 22 August 2012.

IFRS Interpretations Committee Project *Put Options Written over Non-controlling Interests*

EFRAG finalised its draft comment letter to the Interpretations Committee DI/2012/2 Draft Interpretation *Put Options Written over Non-controlling Interests*.

The draft comment letter notes that EFRAG does not agree with the way the Interpretations Committee addressed the issue.

The comment deadline is 19 September 2012.

IFRS Interpretations Committee Rejection Notice on Greek Government Bonds

EFRAG also finalised its Comment Letter on the Interpretations Committee rejection notice in relation to the restructuring of Greek government bonds.

EFRAG agrees with the Interpretations Committee's conclusion that the old Greek government bonds should be derecognised in their entirety (since their terms and conditions are substantially different compared to those of the new Greek government bonds). EFRAG therefore supports the Interpretations Committee's tentative decision not to add the issue to its agenda.

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

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At its public conference call on 2 July 2012, EFRAG discussed and approved its draft endorsement advice on the IASB's *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).

The Amendments provide transition relief when IFRS 10, IFRS 11 and IFRS 12 are first adopted, by limiting the requirements to provide adjusted comparative information to only the preceding comparative period. This is consistent with the minimum comparative information requirements in existing IFRS. The Amendments also remove the requirement in IFRS 12 to present comparative information about unconsolidated structured entities.

The Amendments are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. In order to align the mandatory effective date of the Amendments with the deferred effective date of IFRS 10, IFRS 11 and IFRS 12 as approved by the Accounting Regulatory Committee in June 2012, EFRAG's preliminary recommendation is to defer the mandatory effective date of the Amendments from 1 January 2013 to 1 January 2014, with early adoption permitted.

EFRAG has issued an invitation to comment relating to the endorsement of the Amendments in the European Union and European Economic Area.

EFRAG's initial assessment is that the Amendments satisfy the technical criteria for EU endorsement and EFRAG should therefore recommend their endorsement.

Comments on EFRAG's initial assessments are invited by 17 August 2012.

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

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In May 2012, the Interpretations Committee published the Draft Interpretation DI/2012/1 *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*.

In its draft comment letter, EFRAG acknowledges that the consensus is consistent with the principles in the Conceptual Framework and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. However, EFRAG does not see a conceptual reason why the rationale in the Basis for Conclusions of the Draft Interpretation would not also apply to levies due only if a minimum revenue threshold is achieved. Therefore, EFRAG believes that the Draft Interpretation should also address the accounting for those levies.

Furthermore, EFRAG recommends that the IASB make clearer that the scope of the Draft Interpretation is very broad and includes within its scope the majority of payments to public authorities (e.g. property tax).

Comments on EFRAG's draft comment letter are invited by 22 August 2012.

## IFRS Interpretations Committee Project *Put Options Written over Non-controlling Interests*

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At its 2 July conference call, EFRAG discussed and approved a revised draft comment letter on the Draft Interpretation *Put Options Written over Non-controlling Interests*.

In its draft comment letter, EFRAG does not agree with the way the Interpretations Committee addressed the issue. In EFRAG's view, the Interpretations Committee should address the issues arising from transactions with non-controlling interests, including NCI puts, in a manner that is consistent with the principles underlying IFRS 3 *Business Combinations*, IFRS 10 *Consolidated Financial Statements*/IAS 27 *Consolidated and Separate Financial Statements*, IAS 32 *Financial Instruments: Presentation* and IFRIC 17 *Distributions of Non-cash Assets to Owners* as this would result in a more robust and principles-based solution.

EFRAG did not reach a consensus on the accounting proposed, which requires changes in the measurement of the NCI put liability to be recognised in profit or loss. EFRAG TEG members expressed three different views and invited constituents to comment on these views:

- Remeasurement in profit or loss is always appropriate (the approach taken by the Interpretations Committee).
- Remeasurement in profit or loss is not appropriate and that changes should be recognised in equity.
- Remeasurement in profit or loss is appropriate in some circumstances (when the non-controlling interest has been derecognised and when the NCI put is in effect contingent consideration payable in a business combination on an acquisition made after adoption of IFRS 3 (2008)).

Comments are invited on the draft comment letter by 19 September 2012.

## IASB Request for Information *Comprehensive Review of IFRS for SMEs* (2012 - 2014)

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At its 13 July conference call and at its July meeting, EFRAG agreed on the content of its draft response to the IASB's Request for Information related to the comprehensive review of the IFRS for SMEs. There were differing views between EFRAG TEG members on some of the questions raised in the Request for Information, and EFRAG will therefore include some questions to its constituents in its draft response. The differing views were on:

- how changes to (full) IFRS should be taken into account when considering revisions to the IFRS for SMEs; and
- whether the IFRS for SMEs should include options to apply recognition and measurement requirements that would result in a closer alignment of the reported figures to the figures reported under (full) IFRS.

EFRAG expects to issue for public comment its draft response on the Request for Information in the first part of August 2012.

## EFRAG Proactive Project *Business Combinations under Common Control*

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EFRAG staff presented an analysis of 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. The comments on the DP were mixed but there was a general support for EFRAG taking a further step in the debate on BCUCC transactions.

EFRAG received 28 comments letters from a wide range of institutions including preparers, standard setters, users and accounting firms. Some of the comment letters were from respondents outside the European Union.

EFRAG TEG will continue to discuss the analysis of the comment letters received on the DP at its September 2012 meeting.

## IFRS Interpretations Committee Rejection Notice on Greek Government Bonds

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During its July meeting EFRAG TEG members discussed the comments received on EFRAG's draft comment letter on the Interpretations Committee rejection notice in relation to the restructuring of Greek government bonds.

EFRAG agrees with the Interpretations Committee's conclusion that the old Greek government bonds should be derecognised in their entirety (since their terms and conditions are substantially different compared to those of the new Greek government bonds). EFRAG supports the Interpretations Committee's tentative decision not to add the issue to its agenda.

However, EFRAG believes that it would be helpful if the standards explicitly dealt with debt restructurings more generally, which would be particularly relevant in the light of the current financial crisis.

Therefore, EFRAG suggests that the Interpretations Committee recommends to the IASB that accounting for debt restructurings and modifications be addressed as part of the finalisation of IFRS 9 *Financial Instruments*.

EFRAG will further consider in its September meeting comments received from constituents only shortly before its meeting and that could constitute areas of particular attention for the IASB in the finalisation of IFRS 9 as recommended above.

## IASB Project *Insurance Contracts*

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During its July 2012 meeting, EFRAG TEG members discussed the next due process steps in the insurance contracts project. EFRAG TEG members agreed on the need for a field-testing exercise on the recent and future IASB tentative decisions; however, the ultimate timeline of this exercise will depend on whether the IASB issues a review draft or decides to re-expose the proposals for insurance contracts.

EFRAG will invite the National Standard Setters in Europe that are interested to participate in the study and invite IASB staff to participate as well.

## IASB Project *Leases*

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EFRAG received an update about the IASB redeliberations of the IASB Project *Leases*. EFRAG was informed that the new exposure draft is expected to be issued in November 2012 with a comment period of 120 days.

In particular, EFRAG staff illustrated the two different approaches proposed for the subsequent measurement of the right-of-use asset, and how lessees should apply the distinction. Some EFRAG TEG members were critical of the double lease expense approach. The IASB member present at the meeting explained the rationale for the decision and noted that it was in part due to the need to converge with the FASB.

Some EFRAG TEG members expressed the concern that having two different approaches showed that recognition of all leases was not appropriate. Others noted that convergence should not impair the quality of the new standard on leases.

A discussion followed about the definition of a lease, and some concerns were expressed based on practical examples. The IASB member noted that the Boards had spent much time discussing the definition, and he thought it was difficult to improve it; however the decision to re-expose the proposals gave constituents an opportunity to contribute their suggestions.

EFRAG staff will bring back a paper to discuss alternative criteria to identify a lease. EFRAG staff was also asked to provide EFRAG TEG members with quantitative data about expected impacts of the proposals.

## IASB Project *Investment Entities*

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At its July meeting, EFRAG received an update about the IASB redeliberations of the IASB Project *Investment Entities*. Among other things, the update included the requirements to be an investment entity based on the current redeliberations.

No decisions were made during the meeting.

## IASB Project *Emission Trading Schemes*

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At its July meeting, EFRAG received an update about the main features of the ANC proposals on accounting for emission rights (as well as the draft standard issued by the Organismo Italiano di Contabilita for entities reporting under Italian GAAP and the accounting resolution issued by the Spanish standard setter ICAC). The proposals are about:

- the accounting should be aligned to the business model of the entity; therefore there should be different approaches for entities that use the rights to settle their obligations (emitters) and entities that purchase rights for trading purposes; and
- emitters should recognise a liability only if they have emitted without having previously obtained emission rights.

The ANC representative noted that free allocations of allowances were being phased out in Europe, so it was appropriate to focus on a scenario where entities can only purchase emission rights.

There was general support for accounting based on the business model of the entity. Some EFRAG TEG members noted, however, that some entities could both use rights in the production process and trade; in that case it may be inappropriate or at least difficult to apply two approaches.

At its July meeting, a high level discussion took place on possible accounting requirements without taking any decisions on the topic.

EFRAG TEG members asked EFRAG staff to provide them with educational material about the legislative framework and market data, to assist EFRAG TEG members with further developing their thinking.

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

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The Canadian Institute of Chartered Accountants 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. EFRAG will provide its comments to the paper following its due process.

At its July meeting, EFRAG received a presentation by the paper's author, Alex Milburn, and had a preliminary discussion of its proposals.