



January 2017

EFRAG Update

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.

January Publications

Final Endorsement Advice

On 13 January, EFRAG completed its due process regarding *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)* and submitted its Endorsement Advice Letter to the European Commission.

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

Summary Reports of Outreach Activities

On 11 January, EFRAG published a Summary Report on the joint investor outreach event in Milan on 29 November 2016 covering IFRS 16 *Leases* and the amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*.

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

On 30 January, EFRAG published a report summarising the findings from its 2016 outreach with a sample of European banks in order to understand their objectives and processes for managing their interest rate margin. EFRAG has undertaken this outreach in order to help the IASB to make progress in its project on Dynamic Risk Management.

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

January 2017 meetings

This edition of the EFRAG Update contains summaries of meetings held in January by:

- The EFRAG Board jointly with EFRAG TEG;
- The EFRAG Board; and
- The EFRAG Technical Expert Group (EFRAG TEG).

Detailed meeting reports

EFRAG Board and EFRAG TEG meeting on 11 January

The EFRAG Board and EFRAG TEG [met on 11 January](#) and discussed the following:

- IASB Publication *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)*
- EFRAG Research Project Goodwill Impairment and Amortisation
- EFRAG Research projects

IASB Publication Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

The EFRAG Board and EFRAG TEG agreed that the comment letters from constituents raised no new issues and that the technical criteria for endorsement were met.

The EFRAG Board and EFRAG TEG agreed that the endorsement advice should state that EFRAG should could not exclude that the Amendments could create a competition issue. However, EFRAG is not in a position to conclude on whether this is material from an economic perspective.

Subject to the above amendment, the EFRAG Board approved the endorsement advice to the European Commission.

EFRAG Research Project Goodwill Impairment and Amortisation

The EFRAG Board and EFRAG TEG had a wide-ranging discussion on accounting for goodwill and supported the continuation of the EFRAG research work with the focus in the short-term on improvements to the impairment test.

EFRAG Research projects

The EFRAG Board and EFRAG TEG supported the overall direction of the EFRAG research activities and recommended that the EFRAG Secretariat pursue appropriate opportunities for joint work with European national standard setters.

EFRAG Board meeting on 12 January

The EFRAG Board [met on 12 January](#) and discussed the following:

- IFRS 16 *Leases*
- IASB Project *Insurance Contracts*
- IASB 2015 Agenda consultation

- EFRAG's work plan

IFRS 16 Leases

The EFRAG Board reviewed the development of the draft endorsement advice.

No decisions were taken at the meeting.

IFRS 17 Insurance Contracts

The EFRAG Board considered the outcomes of the IASB field testing of forthcoming IFRS 17 *Insurance Contracts* and identified additional issues to be considered in the expected endorsement process.

The EFRAG Board supported the proposed case study approach to developing a draft endorsement advice.

IASB 2015 Agenda Consultation

The EFRAG Board considered the outcome of the IASB 2015 Agenda Consultation and agreed that there was no impact on previously agreed EFRAG activities.

EFRAG's work plan

The EFRAG Board approved the technical work plan as presented.

EFRAG Board – January written procedures

No documents were approved using written procedures in January.

EFRAG Board – expected February written procedures

During February, the EFRAG Board is expected to approve the following documents using written procedures:

- EFRAG's Draft Endorsement Advice on IFRIC Interpretation 22 *Foreign Currency Translation and Advance Consideration*
- EFRAG's Draft Endorsement on IASB Publication *Annual Improvements to IFRS Standards 2014-2016 Cycle*
- EFRAG's Draft Endorsement on IASB Publication *Transfers of Investment Property (Amendments to IAS 40)*
- EFRAG's Draft Comment Letter on the IASB Exposure Draft ED/2017/1 *Annual Improvements to IFRS Standards 2015-2017 Cycle*

EFRAG TEG meeting on 25 and 26 January

At its [meeting on 25-26 January](#), EFRAG TEG discussed:

- IFRS 16 *Leases*
- EFRAG Research Project *Equity Instruments – Impairment and Recycling*
- IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*
- IASB Exposure Draft ED/2017/1 *Annual Improvements to IFRS Standards 2015-2017 Cycle*

- EFRAG Research Project *Discounting with Current Interest Rates*
- IASB Research Project *Primary Financial Statements*
- IASB Project Rate-regulated Activities.

IFRS 16 Leases

EFRAG TEG discussed a proposed Draft Endorsement Advice on IFRS 16, with the discussion focusing mainly on whether IFRS 16 meets the technical endorsement criteria contained in the IAS Regulation. EFRAG TEG members unanimously agreed to recommend to the EFRAG Board a Draft Endorsement Advice supporting the endorsement of IFRS 16, subject to some drafting changes. The agreed drafting changes included additional commentary on:

- The impact of IFRS 16 on the presentation of lease payments in the Statement of Cash Flows
- The fact that recognising leases on balance sheet reflects the economic substance of the transactions
- Potential complexities and judgements in applying some of IFRS 16's requirements, including the assessment of extension and termination options, and the related cost implications
- The methodology applied in deriving estimated of lessees' implementation costs and the uncertainties relating to these estimates.

The EFRAG Board will consider the revised document at its meeting on 7 February.

EFRAG Research Project *Equity Instruments – Impairment and Recycling*

EFRAG TEG discussed possible alternative models for the impairment of equity instruments designated at fair value through other comprehensive income under IFRS 9 *Financial Instruments*. EFRAG TEG generally supported the development of an approach that would apply to all equity instruments rather than addressing a specific subset. EFRAG TEG also agreed that developing an impairment approach was a pre-requisite to allowing the recycling of gains or losses on disposal.

No decisions were taken at the meeting.

IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*

EFRAG TEG considered recent developments on the IASB's Conceptual Framework project. EFRAG TEG considered that some, but not all, of the comments made by EFRAG in its comment letter in response to the IASB Exposure Draft were likely to be addressed in the final Conceptual Framework.

In addition, EFRAG TEG noted that the IASB, following the recommendations of EFRAG, had made a study on the effects for preparers of updating the references to the revised Conceptual Framework in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. In its comment letter in response to the IASB's Exposure Draft ED/2015/4 *Updating References to the Conceptual Framework* EFRAG had expressed concern about the practicality of the retrospective application of the changes. In this regard, EFRAG TEG noted at its January 2017 meeting that the IASB had tentatively decided that the changes in accounting policies resulting from the amendment to IAS 8 should not be applied retrospectively unless this would involve undue cost or effort.

No decisions were taken at the meeting.

IASB Exposure Draft ED/2017/1 *Annual Improvements to IFRS Standards 2015-2017 Cycle*

EFRAG TEG agreed to recommend a Draft Comment Letter to the EFRAG Board supporting the proposed amendments, subject to minor drafting changes. In relation to the IASB's proposed amendment to IAS 28 *Investments in Associates and Joint Ventures*, EFRAG TEG recommended:

- Revising the Draft Comment Letter to notes that an equity investment in an associate or joint venture and a long-term interest in the same investee may be managed as a single package, as a result of which some commentators question why the two components should be subject to different impairment models
- Adding a question to constituents on whether any specific issues when an entity has elected to measure investments in subsidiaries, associates or joint ventures in its separate financial statements using the equity method.

EFRAG Research Project *Discounting with Current Interest Rates*

EFRAG TEG discussed whether the relevance of a present value measurement is affected by the existence of negative discount rates. EFRAG TEG tentatively concluded that, even though there may be conceptual issues to investigate around discounting, the relevance of present value is not affected by the level of discount rates. Therefore, most EFRAG TEG members did not support further research into the arguments for and against introducing of a zero-floor for discount rates.

No decisions were taken at the meeting.

IASB Research Project *Primary Financial Statements*

EFRAG TEG discussed the recent developments in the IASB's research project including the scope of the project and the outcome of the research activities undertaken by the IASB Staff and EFRAG Secretariat.

EFRAG TEG highlighted the importance of this project and generally agreed with the IASB's tentative decisions on its scope. EFRAG TEG members emphasised the importance of non-GAAP measures for investors and the need for guidance on their use within the financial statements.

Finally, EFRAG TEG members considered that, for transparency purposes, it could be useful to have a Discussion Paper as a next step.

No decisions were taken at the meeting.

IASB Project *Rate-regulated Activities*

EFRAG TEG discussed a paper summarising recent developments in the scope of the IASB's rate-regulated activities project. EFRAG TEG members were generally supportive of the direction of the changes to the scope of the project proposed by the IASB Staff.

Overall, EFRAG TEG considered that the IASB should approach the project by first identifying the accounting issue that needs to be addressed, instead of describing a particular type of rate regulation. This would reduce the risk of introducing different accounting treatments for activities that, from an economic perspective, are insufficiently dissimilar to justify such a difference but that fall in or out of the scope of a specific type of regulatory regime.

Due to time constraints, EFRAG TEG did not discuss in detail the other agenda papers presented for the session.

No decisions were taken at the meeting.