

June 2013

Summary of EFRAG Technical Expert Group (TEG) and Consultative Forum of Standard Setters (CFSS) meeting June 2013

EFRAG TEG held a conference call on 21 May 2013 to discuss:

- IASB Exposure Draft *Regulatory Deferral Accounts*
- The Conceptual Framework for Financial Reporting

EFRAG TEG held a conference call on 31 May 2013 to discuss the IASB Exposure Draft *Leases*

From 12 to 14 June 2013 EFRAG TEG held its monthly meeting. Part of the meeting was held in conjunction with EFRAG CFSS. The following topics were discussed:

- IASB Exposure Draft *Leases*
- The Conceptual Framework for Financial Reporting
- The Accounting Standards Advisory Forum
- EFRAG's Proactive Projects
- IASB Project *Insurance*
- IASB Exposure Draft *Financial Instruments: Expected Credit Losses*
- EFRAG/OIC Proactive Project *Business Combinations Under Common Control*
- IFRIC 21 *Levies*
- IASB Project *Revenue Recognition*
- IASB Request for Information *Rate-Regulated Activities*

Highlights

On 24 May EFRAG published its draft comment letter in response to the IASB Exposure Draft *Regulatory Deferral Accounts*. For more details see below. Responses are requested by 21 August 2013.

IASB Exposure Draft *Regulatory Deferral Accounts*

In its conference call on 21 May 2013 EFRAG TEG approved a draft comment letter in response to the Exposure Draft. In the draft comment letter, EFRAG tentatively did not support the proposals as they reduced comparability, in the same jurisdiction, between entities that took advantage of the proposals and entities that already applied IFRS or did not wish to apply the requirements of the Exposure Draft when they first adopt IFRS. Furthermore the proposals were not limited to facilitating first-time adoption but maintained previous accounting policies for an indefinite period.

Although EFRAG disagreed with the pursuance of this interim project, EFRAG was supportive of the IASB's proposal to make the standard an option and of the IASB's efforts to limit comparability issues to regulatory deferral account balances.

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Consequently, EFRAG carried out an analysis of the proposed standard where it assessed whether the IASB was successful with its intent of limiting comparability issues to the regulatory deferral account balance line items. As a result, EFRAG identified a number of issues that the IASB should resolve. In addition, EFRAG considered the requirements in the Exposure Draft and identified certain difficulties that application of the proposals may raise.

The Conceptual Framework for Financial Reporting

In a conference call on 21 May, EFRAG TEG approved a Bulletin on the *Role of the Business Model in Financial Statements*. The Bulletin is part of a series being published by EFRAG and the National Standard Setters of France, Germany, Italy and the United Kingdom to promote discussion on topics related to the debate. The document requires approval of EFRAG's four partners.

The Bulletin uses an assumed meaning of the term 'business model' that focuses on the value creation process of an entity. The Bulletin includes a tentative view that the business model should play a role in financial statements, and that the Conceptual Framework should provide guidance to identify when the business model should be taken into account in individual standards. It explains the commonalities and differences between business model and management intent and explains how reflecting the business model enhances the qualitative characteristics of financial reporting.

At the June 2013 EFRAG CFSS meeting, members discussed EFRAG's draft comment letter in response to the forthcoming discussion IASB discussion paper on the Conceptual Framework. Members discussed whether the Conceptual Framework should require a certain level of certainty in relation to the outcome or existence of assets and liabilities before recognising. Both arguments in favour and against including recognition thresholds for assets and liabilities in the Conceptual Framework were presented. Members also considered when a liability existed. Members thought that it would be too restrictive to require an obligation to be unconditional before considering it to be a liability. Members discussed what should be considered equity and how to account for it. When considering these issues it was thought important to determine from what perspective financial reports should be prepared.

At the June 2013 EFRAG TEG meeting, members discussed Bulletins on accountability (stewardship), measurement and performance reporting. While EFRAG TEG members thought that the Bulletin on accountability was almost ready for publication, they wanted more significant changes to be made to the other Bulletins.

The Accounting Standards Advisory Forum

In its June meeting, EFRAG CFSS reflected on the best way to prepare for and contribute to future Accounting Standards Advisory Forum ('ASAF') meetings, the next one of which is scheduled for 25 and 26 September 2013. The European delegation to ASAF comprises the Chairmen of EFRAG, the German, Spanish and UK Standard Setters.

The first ASAF meeting, which took place on 8 and 9 April 2013, was prepared for in the April EFRAG CFSS meeting. EFRAG CFSS members had expressed a strong willingness to be working in a collegial and positive atmosphere, so that the European delegation to ASAF could be fully representative and effective in bringing the variety of views held in Europe at an early stage in the development of IFRS.

The next ASAF meeting will be prepared following a similar process. In addition, agreement was reached on how to provide feedback on and share the discussions held in ASAF meetings with EFRAG TEG and those National Standard-Setters not directly involved.

IASB Exposure Draft *Leases*

In a conference call on 31 May and at its June meeting, EFRAG TEG discussed the Exposure Draft prior to the preparation of a draft comment letter.

EFRAG TEG members debated the different tentative views on the right-of-use model. Some members stated that they were not persuaded that all operating leases should be brought to the balance sheet, because they believe that part of these contracts are akin to services and are performed over time. These members believe that the proposed definition does not allow for a clear distinction between leases and services.

EFRAG TEG debated whether or not the IASB could consider a two-staged approach for Leases: in the first phase the IASB could improve the information for users by introducing more detailed and comprehensive disclosures, while the developments in the Conceptual Framework discussions assist in building understanding and reasonable acceptance of what the right of use asset represents and why its recognition provides improved financial reporting.

EFRAG TEG members also discussed accounting for bundled arrangements. Different views were considered on when an entity should separate the lease of an asset from the provision of services, and how the total payments should be allocated between separate components.

EFRAG TEG members raised concerns about the dual measurement model of leases and debated if the approach should be symmetrical for lessors and lessees. Some members argued that if a distinction is made, it should be applied consistently to all underlying assets.

Regarding options to extend a lease, some members argued that an entity having an option should never be required to recognise a higher liability; and others argued that recognition is appropriate when the exercise of the option is extremely likely.

Some additional comments were raised in relation to disclosure requirements and transition.

EFRAG's Proactive Projects

At the June 2013 EFRAG CFSS meeting, an update was provided to members on EFRAG's proactive projects. In relation to the Conceptual Framework, EFRAG jointly with the National Standard Setters of France, Germany, Italy and the United Kingdom had issued newsletters and Bulletins. The finalisation of the EFRAG/OIC project *Business Combinations Under Common Control* was scheduled for the third quarter of 2013. A paper on the role of the business model in financial statements might be published together with the ANC and FRC later in 2013. A literature review of capital providers' use of financial statements financed by EFRAG and ICAS was being prepared for publication. Finally, the aim was to publish a paper, together with the National Standard Setters of the Netherlands, Spain and Italy, on separate financial statements before the end of 2013.

IASB Project *Insurance*

EFRAG CFSS and EFRAG TEG members were provided with an educational session on the Insurance Contracts phase II project. The topics covered were measurement of contracts that specify a link to the returns on underlying items and presentation of insurance contract revenue and expenses.

Darrel Scott, an IASB Board member, provided clarifications on the IASB's proposals on the topics discussed. No decisions were taken at the meeting.

IASB Exposure Draft *Financial Instruments: Expected Credit Losses*

In its draft comment letter EFRAG accepted the proposed impairment model as an acceptable balance between the cost of implementation and the underlying economics, while meeting the

need to provide earlier for expected credit losses as expressed by financial regulators and other constituents. As part of its assessment EFRAG CFSS discussed in its June meeting an alternative impairment model, that would provide similar outcomes as the 2009 ED, albeit on the basis of a decoupled approach and a notion of good book/bad book as developed in the Supplementary Document. While the model stirred interest and support, it seemed to come quite late in the process and would require work to assess whether it can be applied to a wide range of financial assets and without the support of an internal rating based approach for credit risk.

EFRAG TEG was further informed about the results of the impairment workshop held on 10 June 2013 in cooperation with the IASB. In this workshop, banks and insurers presented a number of case studies to the IASB related to the implementation of the impairment model. Finally, the preliminary results of the field test on the Exposure Draft were presented. No decisions were taken at the meeting.

EFRAG/OIC Proactive Project *Business Combinations Under Common Control*

At its June 2013 meeting, EFRAG TEG was provided with an update on the project. EFRAG TEG primarily discussed an initial proposal for a definition of a Business Combination Under Common Control ('BCUCC'). Some EFRAG TEG members were concerned of potential unintended consequences as a result of modifying the current description of BCUCC in IFRS 3 *Business Combinations* and therefore requested the EFRAG staff to consider this topic further. The discussion would continue in subsequent meetings.

IFRIC 21 Levies

At its June 2013 meeting, EFRAG TEG discussed an initial Draft Endorsement Advice, which highlighted the key concerns expressed by EFRAG TEG members during the May 2013 meeting..

IASB Project *Revenue Recognition*

At its June 2013 meeting, EFRAG TEG was provided with a short overview of the preliminary findings from the follow up of the field-test organised on the basis of the 2011 Exposure Draft. The purpose of the follow up was to assess the understandability of the proposed requirements on when a performance obligation was satisfied over time and how to identify separate performance obligations. EFRAG staff explained that the results of the field-tests would be shared with the IASB staff. EFRAG TEG did not discuss the findings.

IASB Request for Information *Rate-Regulated Activities*

At its June 2013 meeting, EFRAG TEG received an update on the activities performed on the IASB's research project on rate-regulated activities and on the current status of work on the Request for Information.