

January 2015

EFRAG Update

EFRAG Update is published on a monthly basis to inform constituents about due process publications, public technical discussions held and decisions made during that month.

January Publications

Letter to the Trustees of the IFRS Foundation

On 16 January a letter was sent to the Trustees of the IFRS Foundation as part of their review of the Accounting Standards Advisory Forum.

Letter to the IFRS Interpretations Committee

On 20 January a letter was sent to the IFRS Interpretations Committee regarding tentative agenda decisions on the application of IFRS 11 *Joint Arrangements*.

Final Comment Letters

A final comment letter in response to the IASB Exposure Draft *Recognition of Deferred Tax Assets for Unrealised Losses (Proposed Amendments to IAS 12)* was published on 7 January. For more details please see the [EFRAG website](#).

A final comment letter in response to the IASB Exposure Draft *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* was published on 15 January. For more details please see the [EFRAG website](#).

A final comment letter in response to the IASB Discussion Paper *Reporting the Financial Effects of Rate Regulation* was published on 16 January. For more details please see the [EFRAG website](#).

Feedback Statements

A feedback statement summarising constituent input and how it was taken into account in the finalisation of the comment letter in response to the IASB Discussion Paper *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging* was published on 19 January. For more details please see the [EFRAG website](#).

January 2015 meetings

This edition of EFRAG Update contains summaries of meetings and conference calls held during January by:

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

Detailed meeting reports

EFRAG Board – Meeting on 14 January

The EFRAG Board met on 14 January. The technical topics discussed were:

- Latest developments at the IASB
- Leases

- EFRAG/OIC/ASBJ Project on the accounting for goodwill
- IASB Discussion Paper *Reporting the Financial Effects of Rate-regulation*
- IASB Exposure Draft *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*
- IFRS 9 *Financial Instruments*
- EFRAG work plan

Details of the discussions are summarised below.

Latest developments at the IASB

Hans Hoogervorst, Chairman of the IASB, presented the EFRAG Board with an update on the major projects currently on the work plan of the IASB.

Leases

Hans Hoogervorst and Sue Lloyd, IASB Board Member, met with the EFRAG Board to discuss the IASB's leases project.

Members of the EFRAG Board expressed their concerns with the outcome of the IASB's latest deliberations, namely where the definition of a lease and related guidance set the boundary between leases and services and the possible competitive disadvantage for European companies that could arise out of the diverging decisions of the IASB and the FASB, for instance in relation to the presentation of liabilities.

EFRAG/OIC/ASBJ Project on the accounting for goodwill

The EFRAG Board considered a draft project plan that addressed the scope of the second stage of the project, i.e. identifying potential ways of increasing the relevance of the amortisation model. The EFRAG Board also showed interest in having potential improvements in the impairment model researched as well, however agreed that the two subjects should not be run in parallel.

The EFRAG Board approved the project plan and requested that EFRAG TEG provide guidance on the technical development of the project.

IASB Discussion Paper *Reporting the Financial Effects of Rate-regulation*

The EFRAG Board approved the final EFRAG comment letter to the IASB, which supported the direction of the project.

EFRAG broadly supported 'defined rate regulation' as described in the DP. In EFRAG's view, the existence of a rate-setting framework that creates enforceable rights and obligations based on the revenue requirement had a pivotal role to play in determining the scope of the project. EFRAG also highlighted that the revenue approach had an important role to play in any future accounting guidance. Furthermore, EFRAG believed that there a need for the IASB to explore in more detail cases where the cost deferral approach described in the DP might produce relevant information.

IASB Exposure Draft *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*

The EFRAG Board approved the final EFRAG comment letter to the IASB on the Exposure Draft.

The comment letter did not support the proposal in the Exposure Draft that the fair value of quoted investments in subsidiaries, joint ventures and associates should be calculated only in relation to the number of instruments held and their quoted price. The comment letter recommended that consideration should be given to finding reliable methods of measuring the fair value of such investments as a whole.

IFRS 9 *Financial Instruments*

The EFRAG Board commenced its planned series of discussions on developing a draft endorsement advice on IFRS 9 by considering the provisions in IFRS 9 that permit the continuation of certain hedge accounting practices through the application of IAS 39 *Financial Instruments: Recognition and Measurement*, including the European carve-out.

EFRAG work plan

The Board approved the work plan as presented.

EFRAG Board – January written procedures

During January, the EFRAG Board approved the following documents using written procedures:

- EFRAG final comment letter in response to IASB Exposure Draft *Recognition of Deferred Tax Assets for Unrealised Losses*.
- A letter to the IFRS Interpretations Committee regarding tentative agenda decisions on the application of IFRS 11 *Joint Arrangements*.

EFRAG Board – Expected February written procedures

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

- Final Endorsement Advice to the European Commission on *Annual Improvements to IFRSs (2012-2014 cycle)*
- Draft Endorsement Advice to the European Commission on *Disclosure Initiative (Amendments to IAS 1)*
- EFRAG draft comment letter in response to the IASB Exposure Draft *Disclosure Initiative (Amendments to IAS 7)*

Documents subject to written approval are available on the relevant project page on the EFRAG website.

EFRAG Technical Expert Group – Meeting 28-30 January

EFRAG TEG met on 28-30 January and discussed:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- IASB Publication *Disclosure Initiative (Amendments to IAS 1)*
- IASB Publication *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)*
- IASB Publication *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*
- IASB Project *Insurance Contracts*
- EFRAG Discussion Paper *Classification of Claims*
- EFRAG/OIC/ASBJ Discussion Paper *Should goodwill still not be amortised?*
- EFRAG Short Discussion Series Paper *Levies: what would have to be changed in IFRS for a different accounting outcome?*
- EFRAG Short Discussion Series Paper *Presentation of the Reversal of Acquisition Step-Ups*

IFRS 9 *Financial Instruments*

EFRAG TEG discussed an analysis of IFRS 9 relating to the endorsement criteria. EFRAG TEG members also discussed:

- whether IFRS 9 can be seen as an improvement over IAS 39;
- whether differences between IFRS 9 and the corresponding US GAAP rules would imply competitive disadvantages for European constituents if IFRS 9 were to be endorsed;
- the concept of prudence and how it could be applied in the context of the endorsement process; and
- the possible impact on investor and issuer behaviour.

No decisions were taken during the meeting. Revised versions of some of the papers will be

considered by the EFRAG Board at its February meeting.

IFRS 15 Revenue from Contracts with Customers

EFRAG TEG agreed to recommend to the EFRAG Board to issue a positive endorsement advice on IFRS 15. EFRAG TEG, however, recommended the effective date of IFRS 15 being deferred from 1 January 2017 to 1 January 2018.

The EFRAG Board will discuss the effective date and EFRAG's final endorsement advice at its February 2015 meeting. This will include an assessment of whether endorsement of the standard is conducive to the European public good.

IASB Publication Disclosure Initiative (Amendments to IAS 1)

EFRAG TEG approved its advice to the EFRAG Board on EFRAG's draft endorsement advice relating to the use of the amendments in the European Union and European Economic Area. EFRAG TEG's initial assessment is that the Amendments satisfy the technical criteria for endorsement.

IASB Publication Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

EFRAG TEG discussed how to proceed with a draft endorsement advice and considered a number of issues. They prepared a paper to be discussed by the EFRAG Board in its February meeting assessing potential consequences of non-endorsement.

EFRAG TEG will consider a draft endorsement advice at a future meeting.

IASB Publication Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

EFRAG TEG discussed the Amendments which were published in September 2014, including the IASB's tentative decision to correct an unintended consequence of the amendments. The IASB is planning to propose additional changes to IFRS 10 and IAS 28, including a delay to the effective date of the Amendments, within the forthcoming exposure draft on elimination of gains or losses arising from transaction between an entity and its associates and joint ventures. In light of the interaction between the amendments published in September 2014 and the IASB's forthcoming exposure draft, EFRAG TEG highlighted this development to the EFRAG Board in the context of endorsement.

IASB Project Insurance Contracts

EFRAG TEG received an update on the recent developments in the CFO Forum Alternative Proposal for participating contracts and the IASB's January 2015 tentative decisions relating to initial application of the new insurance contracts standard after implementation of IFRS 9.

No decisions were taken.

EFRAG Discussion Paper Classification of Claims

EFRAG TEG considered feedback received from constituents in response to the Discussion Paper and potential next steps in the project.

The majority of respondents agreed with the identified framework for making decisions on classification of claims, but a number disagreed with the identification and derivation of the objectives of classification. A feedback statement was approved for publication.

EFRAG/OIC/ASBJ Discussion Paper Should goodwill still not be amortised?

EFRAG TEG considered feedback received in response to the Discussion Paper.

The majority of respondents supported reintroducing amortisation of goodwill both for conceptual and practical reasons, with a minority, mostly users, being opposed. At the same time, many agreed that there are areas for improvement in the impairment test in IAS 36.

A feedback statement was approved for publication.

[EFRAG Short Discussion Series Paper *Levies: what would have to be changed in IFRS for a different accounting outcome?*](#)

EFRAG TEG considered the feedback received in response to the Paper.

Overall, respondents showed concern with the application of IFRIC 21 *Levies*. A majority of respondents favoured developing specific requirements in IAS 34 *Interim Financial Reporting* to address their concerns.

[EFRAG Short Discussion Series Paper *Presentation of the Reversal of Acquisition Step-Ups*](#)

EFRAG TEG considered the feedback received in response to the Paper.

The majority of respondents did not support the introduction of a presentation or disclosure requirement because they believe that IAS 1 *Presentation of Financial Statements* already provides the opportunity to do so when the entity deems the information to be relevant.

A feedback statement was approved for publication.

[EFRAG TEG Conference Call – 7 January](#)

EFRAG TEG held a conference call on 7 January to discuss:

- IASB Discussion Paper *Reporting the Financial Effects of Rate Regulation*
- IASB Exposure Draft *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*

[IASB Discussion Paper *Reporting the Financial Effects of Rate Regulation*](#)

EFRAG TEG received an update of the outreach EFRAG staff had conducted with users of financial statements on the Discussion Paper. EFRAG TEG also considered comments received from constituents on its draft comment letter, including feedback provided by members of the EFRAG Rate-Regulated Activities Working Group.

[IASB Exposure Draft *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*](#)

EFRAG TEG recommended a final comment letter to the EFRAG Board.

[EFRAG TEG Conference Call – 16 January](#)

EFRAG TEG held a conference call on 16 January to discuss:

- IASB Discussion Paper *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging*
- IASB Exposure Draft *Disclosure Initiative (Amendments to IAS 7)*

[IASB Discussion Paper *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging*](#)

EFRAG TEG approved a feedback statement for publication, summarising how constituent comment was taken into account in the finalisation of the EFRAG comment letter.

[IASB Exposure Draft *Disclosure Initiative \(Amendments to IAS 7\)*](#)

EFRAG TEG recommended a draft comment letter to the EFRAG Board. EFRAG TEG members did not reach a consensus on whether it could support the proposed Amendments. The draft comment letter therefore sets out two different views.