

May 2014

## Summary of EFRAG Technical Expert Group (TEG) meeting

From 7-9 May 2014 EFRAG TEG held its monthly meeting. The following topics were discussed:

- IASB Discussion Paper *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging*
- IASB Project *A Review of the Conceptual Framework for Financial Reporting*
- ESMA Consultation Paper *Guidelines on Alternative Performance Measures*
- EFRAG Short Discussion Series Paper *A principle based approach to ensure consistent application of IFRS*
- EFRAG Project *IAS 37 and IFRIC 21*
- EFRAG/OIC/ICAC/DASB Discussion Paper *Separate Financial Statements*
- EFRAG/OIC Proactive Project *Business Combinations Under Common Control*
- Bulletins on the IASB's *Conceptual Framework* Project
- IFRS 3 *Business Combinations* – Post-implementation Review
- EFRAG Short Discussion Series Paper *IFRS 3 Business Combinations – Subsequent accounting for acquisition step-ups*
- IASB Project *Leases*
- EFRAG Project *Financial Statement Presentation*
- IASB Project *Insurance Contracts*
- EFRAG Short Discussion Series Paper *Classification of Claims*

### Highlights

#### Comment letters

EFRAG published its comment letter in response to the ESMA Consultation Paper *Guidelines on Alternative Performance Measures* on 12 May 2014. For more details, please see page 2.

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

EFRAG TEG members discussed the main messages to be included in the draft comment letter. The draft comment letter is expected to be finalised at the June 2014 EFRAG TEG meeting after EFRAG receives further preliminary input from its Financial Instruments Working Group, National Standard Setters and other liaison activities in the banking and other industries

### **IASB Project *A Review of the Conceptual Framework for Financial Reporting***

EFRAG TEG considered how the IASB staff could be assisted in understanding the comments EFRAG made in response to the IASB Discussion Paper, including how the first chapters of the Conceptual Framework should be revised to deal with EFRAG's recommendations on prudence, reliability and stewardship.

*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.

## ESMA Consultation Paper *Guidelines on Alternative Performance Measures*

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EFRAG TEG approved a final comment letter on the Consultation Paper, after having received broad support for its preliminary views.

In its comment letter, EFRAG acknowledges that alternative performance measures could provide useful information when properly used and presented. To assist in their proper use and presentation EFRAG therefore supports the idea that they should be clearly defined and explained by preparers and be presented consistently over time.

However, EFRAG observes that ESMA had not provided clear evidence on why the existing CESR recommendation was no longer considered to provide adequate guidance and was in need of replacement. EFRAG recommends that the scope of the requirements be supported by an underlying principle so as to target the requirements more narrowly and hence contribute to effective disclosures.

## EFRAG Short Discussion Series Paper *A principle based approach to ensure consistent application of IFRS*

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EFRAG TEG considered a draft paper prepared by the EFRAG staff that explored how the IASB and the IFRS Interpretations Committee could adopt a more principle based approach when addressing narrow-scope amendments to ensure greater consistency in practice. EFRAG TEG decided not to further develop the project at this stage.

## EFRAG Project *IAS 37 and IFRIC 21*

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EFRAG TEG considered a first draft of a paper that explores different ways to address concerns raised by constituents during the endorsement process of IFRIC 21 *Levies*. The paper considers, among other issues, possible changes to the definition of a liability.

It was noted that one of the challenges is to identify whether the payment of the levy gives rise to an asset, and if so, the period during which the entity consumes that asset. A revised draft will be considered at a future meeting.

## EFRAG/OIC/ICAC/DASB Discussion Paper *Separate Financial Statements*

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EFRAG TEG discussed a draft of the Discussion Paper, which sets out the framework of separate financial statements in Europe, provides the key conclusions from the research activities on the information needs of users and analyses a number of financial reporting areas identified by those applying and using separate financial statements. A revised draft will be considered at a future meeting.

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

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EFRAG TEG members were presented with the findings of an analysis of real-life examples of BCUCC transactions under IFRS. The analysis did not identify in the samples considered of current practice any emerging classification of the types of transactions that would help in selecting which accounting treatment (of those identified in the EFRAG/OIC Discussion Paper) would prevail in given sets of circumstances.

EFRAG TEG decided that the next step on the project should be to liaise with the IASB and share the analysis to contribute to the IASB's project.

## **Bulletins on the IASB's *Conceptual Framework Project***

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EFRAG TEG supported the outline proposed by EFRAG staff for a Bulletin on cash flow statements. It should be developed to describe the information this statement should provide that was not elsewhere in the financial statements.

EFRAG TEG also continued to express interest in developing possible guidelines for selection of the unit of account. However EFRAG TEG did not think that the business model should be the only or the main possible factor but it should be considered among others.

## **IFRS 3 *Business Combinations* - Post-implementation Review**

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EFRAG TEG discussed a paper containing the preliminary results of the outreach events with users and preparers carried out by EFRAG staff in partnership with National Standard Setters and other organisations to prepare EFRAG's response to the IASB's Request for Information. EFRAG TEG will consider its response to the IASB at the June meeting.

## **EFRAG Short Discussion Series Paper *IFRS 3 Business Combinations* - *Subsequent accounting for acquisition step-ups***

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EFRAG TEG discussed a revised draft of a paper to discuss ways to provide information on the reversal of step-ups on assets acquired in a business combination, so as to address the perceived loss of relevance of the statement of income after a significant business combination. A revised draft will be considered at a future EFRAG TEG meeting.

## **IASB Project *Leases***

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EFRAG TEG considered a number of alternative proposals relating to definition and criteria for identifying a lease. EFRAG has, on a number of occasions, stated that the criteria proposed by the IASB may lead to the recognition of arrangements that are in substance services and the alternative proposals were designed to address this.

EFRAG TEG members expressed a number of concerns on the proposals, noting that some of them were complex and others may have unintended consequences.

## **EFRAG Project *Financial Statement Presentation***

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EFRAG TEG discussed to what extent work done in the context of the IASB's deferred Financial Statements Presentation project could contribute to the next IASB standard setting effort in this area, as an alternative to a Research project encompassing both Financial Statement Presentation and Disclosures.

A paper will be considered at a future EFRAG TEG meeting.

## **IASB Project *Insurance Contracts***

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EFRAG TEG received an update on the two topics re-deliberated by IASB in April: insurance contract revenue and a proposed plan for non-targeted issues identified in the responses to the 2013 Exposure Draft.

EFRAG TEG also discussed the insurance industry alternative approach for participating contracts. EFRAG TEG did not take any decisions with respect to the alternative approach but requested additional information.

## EFRAG Short Discussion Series Paper *Classification of Claims*

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EFRAG TEG considered the first draft of an EFRAG Short Discussion Series Paper supporting analysis of possible equity/liability distinctions. In its response to the IASB Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*, EFRAG stated it believed that a conceptual distinction between equity and liabilities would need to be defined in parallel of a standard level effort on the subject. This paper aims to provide an insight and better understanding by all those who intend to be of assistance to the IASB in the project of the intricacies of the distinction. To that aim, the paper identifies the choices that need to be made with respect to classification of claims, the consequences of those choices and develops a glossary of relevant terms. A revised draft will be considered at a future EFRAG TEG meeting.