

December 2015

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.

December Publications

Final Comment letters

On 23 December, EFRAG has published its final comment letters on the IASB's Exposure Drafts ED/2015/3 *Conceptual Framework for Financial Reporting* and ED/2015/4 *Updating References to the Conceptual Framework*. For more details, please see the [EFRAG website](#).

Draft Comment letters

On 24 December, EFRAG published its draft comment letter on the IASB's Exposure Draft ED/2015/11 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*. Comments on the draft comment letter are requested by 20 January 2016. For more details, please see the [EFRAG website](#).

On 16 December, EFRAG published its draft comment letter on the IASB's Exposure Draft ED/2015/10 *Annual Improvements to IFRSs 2014 – 2016 Cycle*. Comments are requested by 5 February 2016. For more details, please see the [EFRAG website](#).

On 10 December, EFRAG published its draft comment letter in response to the IASB's Exposure Draft ED/2015/9 *Transfers of Investment Property: Proposed Amendments to IAS 40*. Comments are requested by 15 March 2016. For more details, please see the [EFRAG website](#).

On 4 December, EFRAG published its draft comment letter on the IFRS Foundation's *Invitation to Comment* regarding the *IFRS Taxonomy Due Process*. Comments are requested by 30 January 2016. For more details, please see the [EFRAG website](#).

Response to the Trustees' Request for Views

On 21 December, EFRAG published its response to the Request for Views *Trustees' Review of Structure and Effectiveness: Issues for Review* and the related feedback statement addressing the comment letters EFRAG received. For more details, please see the [EFRAG website](#).

Report on findings

On 9 December, EFRAG published a report summarising the findings from the public survey conducted by EFRAG, in association with the National Standard Setters of Lithuania, France, Germany, Italy, and the UK, on the effects of the introduction of IFRS 16 *Leases* on financial covenants in loan agreements. For more details, please see the [EFRAG website](#).

Letters to the European Commission

On 4 December, EFRAG issued a letter to the European Commission, providing further information relating to the endorsement of IFRS 9 *Financial Instruments* and specifically addressing the non-alignment of the effective dates of IFRS 9 and the future insurance contracts standard. For more details, please see the [EFRAG website](#).

On 1 December, at the request of the European Commission, EFRAG issued a letter to explain further how it reached the conclusion contained in its endorsement advice that IFRS 9 is not contrary to the true and fair principle.

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

Feedback Statements and summary report

In December, EFRAG published five feedback statements on Joint Outreach Events held on the IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*:

- Joint Outreach Event held in Oslo on 16 September in conjunction with the Norwegian Accounting Standards Board (NASB). For more details, please see the [EFRAG website](#).
- Joint Outreach Event held in Madrid on 21 September, in conjunction with the Spanish Standard Setter (Instituto de Contabilidad y Auditoría de Cuentas). For more details, please see the [EFRAG website](#).
- Joint Outreach Event held in September in Vilnius on 23 September in conjunction with the Estonian Ministry of Finance, the Latvian Ministry of Finance and the Lithuanian Authority of Audit and Accounting. For more details, please see the [EFRAG website](#).
- Joint Outreach Event held in Warsaw on 30 September in conjunction with the Polish Accounting Standards Committee (KSR). For more details, please see the [EFRAG website](#).
- Joint Outreach Event held in Rome on 30 November in conjunction with the Italian Standard Setter (Organismo Italiano di Contabilita). The draft Practice Statement on the *Application of Materiality to Financial Statements* was also discussed at the event. For more details, please see the [EFRAG website](#).

On 21 December, EFRAG published a summary report on the Joint Investor Outreach Event, held on 22 October in Milan in conjunction with EFFAS, the AIAF and the IASB, on profit or loss and other comprehensive income. For more details, please see the [EFRAG website](#).

December 2015 meetings and conference calls

This edition of the EFRAG Update contains summaries of meetings and conference calls held in December by:

- The EFRAG Board
- The EFRAG Technical Expert Group (EFRAG TEG)
- The EFRAG Consultative Forum of Standard Setters (EFRAG CFSS)

Detailed meeting reports

EFRAG Board conference call on 4 December

The EFRAG Board held a conference call on 4 December and discussed EFRAG's letter to the European Commission, with further information on the endorsement of IFRS 9 concerning the insurance issue.

EFRAG Board meeting on 16 December

The EFRAG Board met on 16 December and discussed the following:

- IASB Research Project *Goodwill and Amortisation*
- IASB Exposure Draft *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Proposed amendments to IFRS 4)*
- IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*
- Work plan

IASB Research Project Goodwill and Amortisation

The EFRAG Board considered the status of the EFRAG/ASBJ/OIC Research project and asked that information be collected about the impact of goodwill on the financial statements and the costs of conducting the impairment test. The EFRAG Board also agreed that the EFRAG Secretariat could partner with the IASB on further developments in the project, provided that terms of reference protect its independence.

IASB Exposure Draft Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Proposed amendments to IFRS 4)

The EFRAG Board made a number of amendments without modifying the thrust of the draft position before approving the draft comment letter, and agreed that the comment period deadline would be 20 January 2016). In particular, the EFRAG Board asked that input from constituents be sought on scoping the temporary exemption from IFRS 9 on the basis of a "regulated entity" criterion.

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

The EFRAG Board made minor amendments to the draft of a final comment letter and approved it for forwarding to the IASB. The EFRAG Board also approved the final comment letter on the Exposure Draft *Updating References to the Conceptual Framework*.

Work plan

The EFRAG Board approved the work plan as presented, except that the final comment letter on the Materiality Practice Statement should be approved during a public meeting.

EFRAG Board – December written procedures

The EFRAG Board approved the following documents, using written procedures:

- EFRAG's draft comment letter on the IASB's Exposure Draft ED/2015/9 *Transfers of Investment Property: Proposed amendment to IAS 40*.
- EFRAG's draft comment letter on the IASB's Exposure Draft ED/2015/10 *Annual Improvements to IFRSs 2014 – 2016 cycle*.
- EFRAG's draft comment letter on the IFRS Foundation's Invitation to Comment *IFRS Taxonomy Due Process*.

EFRAG Board – Expected January written procedures

During January 2016, the EFRAG Board is expected to approve the following documents using written procedures:

- EFRAG Final Comment Letter on IASB Draft IFRIC Interpretation DI/2015/1 *Accounting for Uncertainties in Income Taxes*
- EFRAG Final Comment Letter on IASB Draft IFRIC Interpretation DI/2015/2 *Foreign Currency Transactions and Advance Consideration*

EFRAG TEG meeting on 3 – 4 December

At its meeting on 3 – 4 December, EFRAG TEG discussed:

- IASB Exposure Drafts ED/2015/3 *Conceptual Framework for Financial Reporting* and ED/2015/4 *Updating References to the Conceptual Framework*
- IASB Exposure Draft ED/2015/9 *Transfers of Investment Property – Proposed Amendments to IAS 40*
- IASB Exposure Draft ED/2015/10 *Annual Improvements to IFRSs 2014 – 2016 Cycle*
- EFRAG proactive work on Post-Employment Benefits
- IASB Project *Post-Implementation Review: IFRS 8 Operating Segments*
- IASB Project *Insurance Contracts*
- IASB Request for Views *2015 Agenda Consultation*
- EFRAG Proactive work on a Measurement Bulletin

IASB Exposure Drafts ED/2015/3 *Conceptual Framework for financial reporting* and ED/2015/4 *Updating References to the Conceptual Framework*

EFRAG TEG considered the comment letters and input received from outreach activities on:

- EFRAG's Document for Public Consultation on the IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting* ('ED/2015/3')
- IASB Exposure Draft ED/2015/4 *Updating References to the Conceptual Framework* ('ED/2015/4')
- EFRAG's Bulletin Profit or loss versus OCI

EFRAG TEG agreed the final comment letters in response to ED/2015/3 and ED/2015/4 to be recommended to the EFRAG Board for discussion at its December 2015 meeting.

IASB Exposure Draft ED/2015/9 *Transfers of Investment Property: Proposed Amendments to IAS 40*

EFRAG TEG agreed to recommend a draft comment letter to the EFRAG Board.

In its comment letter, EFRAG agreed with the IASB's proposals in the Exposure Draft.

IASB Exposure Draft ED/2015/10 *Annual Improvements to IFRSs 2014 – 2016 Cycle*

EFRAG TEG agreed to recommend a final comment letter in response to the IASB Exposure Draft ED/2015/10 *Annual Improvements to IFRSs 2014 – 2017 Cycle* to the EFRAG Board.

EFRAG Proactive Work on *Post-Employment Benefits*

Following a discussion at the October TEG meeting, EFRAG Secretariat submitted a revised work plan on research on pensions. EFRAG TEG approved the work plan and suggested to better articulate certain points. EFRAG TEG also recommended coordinating with the IASB to ensure that efforts are not duplicated, given that the IASB is currently discussing a research project on pensions.

IASB Project *Post-implementation Review: IFRS 8 Operating Segments*

EFRAG TEG discussed an issues paper that set out forthcoming amendments to IFRS 8 *Operating Segments* in response to issues raised during the IASB's post-implementation review of IFRS 8. EFRAG TEG broadly supported the tentative proposals to amend IFRS 8. However, EFRAG TEG expressed concerns with respect to the identification of the Chief Operating Decision Maker (CODM) and suggested that greater weight be placed on the allocation of resources function of the CODM, rather than focusing on the technical structure of the governing body.

IASB Project *Insurance Contracts*

EFRAG TEG discussed a draft comment letter on the changes to IFRS 4 *Insurance Contracts* and recommended a number of amendments. EFRAG TEG's advice and a revised draft letter will be submitted to the EFRAG Board for discussion and approval.

IASB Request for Views *2015 Agenda Consultation*

EFRAG TEG considered the preliminary input provided by constituents in meetings and

outreach events on the IASB Agenda Consultation. The main messages were consistent with EFRAG's views expressed in the draft comment letter. However, since few formal replies have been received, EFRAG will finalise its comment letter in January.

EFRAG Proactive Work on a Measurement Bulletin

EFRAG held an initial discussion on potential revisions to the measurement chapter in the Conceptual Framework Exposure Draft, to better explain the changes that would need to be made if the IASB adopts EFRAG's recommendations. EFRAG TEG will continue the discussions at a future meeting.

EFRAG CFSS meeting on 2 December

At its meeting on 24 September, EFRAG CFSS discussed:

- IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*
- IASB Project *Disclosure Initiative*
- Role of Post Implementation Reviews
- IASB Research Project *Business Combination under Common Control*
- IASB Research Project *Goodwill and Impairment*
- IASB Research Project *Post-employment benefits*
- Effect of Cultural Differences on the Implementation of IFRS
- IASB Research Project *Equity Method of Accounting*

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

EFRAG CFSS discussed a proposal of the Accounting Standards Board of Japan to reintroduce the probability criteria for the recognition of assets and liabilities that do not arise from a transaction. EFRAG CFSS considered that mention in the Conceptual Framework would provide a basis for implementation at standards level.

IASB Project *Disclosure Initiative*

EFRAG CFSS discussed the draft comment letter issued by EFRAG on the IASB's Exposure Draft ED/2015/8 *IFRS Practice Statement: Application of Materiality to Financial Statements* and received an update on the next steps of the IASB's *Disclosure Initiative* project.

EFRAG CFSS generally supported the views expressed in the draft comment letter, that the drafting of the practice statement should be improved to meet its objectives. However, mixed views were expressed as to whether the guidance should be mandatory or not.

Role of Post Implementation Reviews

EFRAG CFSS considered the approach to the recent post-implementation reviews conducted by the IASB and agreed that the following improvements to the process should be discussed at the forthcoming ASAF meeting:

- post-implementation reviews should not be limited to recently issued standards;
- two years after the effective date of a standard may be too early; and

- the IASB should provide more clarity on how it proposes to address the issues identified during a post-implementation review.

IASB Research Project *Business Combination under Common Control*

EFRAG CFSS considered a summary paper on the accounting for business combinations under common control (BCUUC) in Hong Kong.

EFRAG CFSS also discussed the predecessor method for BCUCC and generally agreed that the effect of the difference between the consideration transferred and the net assets acquired should not be presented as an adjustment to share capital. There were, however, mixed views presented by EFRAG CFSS on questions related to measurement of consideration in the form of shares, carrying amounts of assets and liabilities transferred and date of combination including presentation of comparatives.

IASB Research Project *Goodwill and Impairment*

EFRAG CFSS discussed the IASB's research project on goodwill and impairment. The project was at an early stage and no decisions had been taken by the IASB. EFRAG CFSS generally agreed with the IASB staff's suggestions to consider further the amortisation of goodwill and improving the existing impairment-only model, as recommended by the IASB staff. It was noted that some of the proposed improvements to the impairment-only model would help solve some of the practical difficulties. EFRAG CFSS members considered that the recognition and measurement of intangible assets acquired in a business combination should focus on how the assets would be used by the acquiring entity, although EFRAG CFSS acknowledged that this could mean a significant change to the existing model in IFRS 3.

IASB Research Project *Post-employment Benefits*

The objective of the session was to seek EFRAG CFSS' views on the IASB research project on post-employment benefits, including potential accounting models for pensions. EFRAG CFSS members provided comments on the practical application of IAS 19 requirements. Some EFRAG CFSS members noted that, in practice, the D9 model is used in Sweden and Germany. Some CFSS members stated that there were pension plans where an employer had only a residual risk. Other EFRAG CFSS members argued that every plan bears some risks for the employer, while other CFSS members indicated that there were pension plans that had no risks for the employer.

Effect of Cultural Differences on the Implementation of IFRS

EFRAG CFSS considered the preliminary results of research conducted by the Australian and Korean Standard Setters on how the terms of likelihood contained in IFRS (such as 'probable', 'likely', 'remote') were being interpreted and translated in their respective jurisdictions.

EFRAG CFSS considered that there were merits in some of the recommendations made in the research report (in particular, to narrow down the use of such terms). However, EFRAG CFSS believed that translation issues were only one aspect of the problems of inconsistent application of IFRS, and that it is difficult to assess in isolation, as they were closely intertwined with elements of culture and history.

IASB Research Project *Equity Method of Accounting*

EFRAG CFSS discussed an EFRAG paper that proposed direction on the scope of the IASB's

research project on the *Equity Method of Accounting* and considered possible ways for the IASB to advance its project. EFRAG CFSS broadly supported the idea that, to develop the scope of the project, the IASB could consider introducing the notion of strong inter-relationships between the economic activities of the investor and investee as an important factor in to determining which investees would fall within the scope of the equity method.