



March 2016

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.

March Publications

Final comment letters and feedback statements

On 3 March, EFRAG published its final comment letter on the IASB's Exposure Draft ED/2015/10 *Annual Improvements to IFRSs 2014–2016 Cycle*. EFRAG also published a feedback statement summarising the input received from constituents and how it was addressed in the final comment letter.

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

On 8 March, EFRAG published its final comment letter on the IASB's Exposure Draft ED/2015/8 IFRS Practice Statement: *Application of Materiality to Financial Statements*. EFRAG also published a feedback statement summarising the input received from constituents and how it was addressed in the final comment letter.

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

On 25 March, EFRAG published its final comment letter on the IASB's Exposure Draft ED/2015/9 *Transfers of Investment Property: Proposed Amendment to IAS 40*.

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

Feedback Statements

On 14 March, EFRAG published a feedback statement following the publication of its final comment letter on the Exposure Draft ED/2015/11 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*.

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

On 18 March, EFRAG published a summary of the responses received on the questionnaire on the proposed definitions of an asset and of a liability.

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

Study

On 9 March, EFRAG and the Institute of Chartered Accountants of Scotland (ICAS) published a study on the decision-usefulness of financial reporting.

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

March 2016 meetings and conference calls

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

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

Detailed meeting reports

EFRAG Board meeting on 8 March

The EFRAG Board met on 8 March and discussed the following:

- IASB ED/0215/8 IFRS Practice Statement: *Application of Materiality to Financial Statements*
- FASB Financial Instruments project
- EFRAG 2015 Agenda Consultation
- EFRAG Proactive work on Goodwill, impairment and amortisation
- EFRAG Proactive work on a Measurement Bulletin
- EFRAG Work plan

IASB ED/0215/8 IFRS Practice Statement: *Application of Materiality to Financial Statements*

The EFRAG Board approved the comment letter as recommended by EFRAG TEG.

FASB Financial Instruments project

The EFRAG Board noted the recent Accounting Standards Update relating to classification and measurement of financial instruments in US GAAP and the relationship to the requirements on the same topics in IFRS 9 *Financial Instruments*. The EFRAG Board requested further information as the FASB project develops.

EFRAG 2015 Agenda Consultation

The EFRAG Board noted comments from constituents and approved the proposed work plan.

EFRAG 2015 Proactive work on Goodwill, impairment and amortisation

The EFRAG Board discussed a preliminary analysis of studies of the impact of accounting for goodwill in Europe. The EFRAG Board suggested additional work that might provide a better understanding of what information on goodwill would be useful to users.

EFRAG 2015 Proactive work on a Measurement Bulletin

The EFRAG Board approved the paper recommended by EFRAG TEG for discussion at the April 2016 meeting of the Accounting Standards Advisory Forum that proposed how the IASB could easily expand the chapter on measurement in the IASB Exposure Draft *Conceptual Framework for Financial Reporting* in order to meet the concerns raised by EFRAG.

EFRAG Work plan

The EFRAG Board approved the work plan as presented.

EFRAG Board – March written procedures

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

- EFRAG Final Comment Letter on IASB Exposure Draft ED/2015/9 *Transfers of Investment Property: Proposed Amendment to IAS 40*

EFRAG Board – Expected April written procedures

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

- EFRAG Draft Endorsement Advice on the IASB Publication *Disclosure Initiative – Amendments to IAS 7*
- EFRAG Draft Endorsement Advice on the IASB Publication *Recognition of Deferred Tax Assets for Unrealised Losses: Amendments to IAS 12*

EFRAG TEG meeting on 23 March

At its meeting on 23 March, EFRAG TEG discussed:

- IASB Project *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging*
- EFRAG Proactive work on Accounting Implications of Low Interest Rates
- IFRS 16 *Leases*
- IASB Publication *Disclosure Initiative – Amendments to IAS 7*
- IASB ED/2015/9 *Transfers of Investment Property*
- EFRAG Proactive work on Transactions with Government

IASB Project Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging

EFRAG TEG considered an analysis conducted by EFRAG Secretariat and reflecting input received from the EFRAG Financial Instrument Working Group that highlighted the need for further understanding of European banks' net interest margin management. It discussed and agreed the first phase in the work plan for the resulting Dynamic Risk Management project. The first phase includes interviews with representatives of a selection of European banks following a shared questionnaire. National Standard Setters in Europe are expected to participate to the extent feasible. The IASB has decided to participate as an observer and has been welcomed to do so.

No other decisions were taken at the meeting.

EFRAG Proactive work on Accounting Implications of Low Interest Rates

EFRAG TEG discussed issues regarding the accounting effects of low interest rates. EFRAG TEG made recommendations on what areas should be further developed and how the project should complement the IASB's research project on discount rates.

No decisions were taken at the meeting.

IFRS 16 Leases

EFRAG TEG had an initial discussion on the initial drafting of some sections of the forthcoming draft endorsement advice assessing whether IFRS 16 would meet the qualitative characteristics required in the IAS Regulation. EFRAG TEG was also provided with an overview of the topics expected to be covered as part of the assessment of IFRS 16 relating to the European Public Good.

No decisions were taken at the meeting.

IASB Publication *Disclosure Initiative – Amendments to IAS 7*

EFRAG TEG agreed to recommend to the EFRAG Board a draft endorsement advice and invitation to comment on *Disclosure Initiative – Amendments to IAS 7*.

IASB ED/2015/9 *Transfers of Investment Property*

EFRAG TEG discussed the feedback received in response to EFRAG's draft comment letter and agreed to recommend a final comment letter to the EFRAG Board.

EFRAG TEG also approved feedback statement summarising the input received from constituents and how it was addressed in the final comment letter.

EFRAG Proactive work on Transactions with Government

EFRAG TEG had a first discussion on the scope of the project. It was suggested to focus on recognition issues in relation to those transactions with Governments where an entity cannot directly identify specific goods or services received in exchange. A revised work plan will be discussed in a future meeting.

EFRAG CFSS meeting on 22 March

At its meeting on 22 March, EFRAG CFSS discussed:

- IASB Project *Disclosure Initiative*
- IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*
- IASB Project *Rate-regulated Activities*
- IASB Request for Views *2015 Agenda Consultation* and IFRS Trustees' Request for Views *Trustees' Review of Structure and Effectiveness*
- Accounting for Inflation
- IASB Research Project *Share-based Payment*
- IASB Project *Business Combinations under Common Control*

IASB Project *Disclosure Initiative*

The EFRAG CFSS received an update on the current developments and next steps of the IASB's Disclosure Initiative project and discussed the proposed approach to drafting disclosure requirements, which will be included in the forthcoming *Principles of Disclosure* Discussion Paper.

The EFRAG CFSS generally supported the direction of the proposals on drafting disclosure requirements but expressed concerns as to the need to set clear objectives for disclosures and clarify the boundaries between the summary and additional information.

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

EFRAG CFSS discussed what the IASB's strategy should be for finalising the Conceptual Framework. EFRAG CFSS agreed that three areas required more guidance than what had been included in the IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*: guidance on measurement, performance reporting and how to distinguish liability and equity.

EFRAG CFSS members generally thought that the IASB should improve the chapter on measurement included in the IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting* before issuing a revised Conceptual Framework and agreed to the content of the EFRAG paper to be presented at the ASAF meeting in April.

EFRAG CFSS thought, on the other hand, that the IASB could probably not make much progress on how to report performance in the short run. The IASB could accordingly finalise its projects on the Conceptual Framework without much guidance on how to report performance. However research would be needed beyond the Research project on the presentation of financial statements.

Furthermore EFRAG CFSS continued to support the recommendation made initially by EFRAG that the distinction between liability and equity would best progress if informed in parallel by a standard-level project. Accordingly, the revised Conceptual Framework would be expected to be amended when the standard-level project would come to completion.

Finally and more generally EFRAG CFSS members agreed that, whilst the IFRS Conceptual Framework is expected to be a reasonably stable document, it should be revised when significant progress is made in some financial reporting area that would benefit the IASB standard-setting practice.

IASB Project *Rate-regulated Activities*

The EFRAG CFSS considered an illustrative example that highlighted different scenarios of funding of the construction of an asset by a water company operating under defined rate regulation. In certain cases funding would be provided by the regulator (or a third-party out of a decision by the regulator) in advance of the construction of the asset and the asset would, as a result trigger no element of revenue requirement; in other cases, the construction of the asset would give rise to a revenue requirement, however on a period reflecting for example the term of a loan contracted by the entity (different from the useful life of the asset). The objective was to identify what liability if any should be recognised and what income and over what period the entity should recognise under the different funding options.

EFRAG CFSS members tended in their majority to agree on the outcome, however expressed different views on why a liability should be recognised at the time the funding is provided (in the scenarios in which funding was provided at the outset) and the income arising thereof be recognised throughout the useful life of the asset. They agreed that the period over which a loan had to be reimbursed should not influence the recognition of revenue. In this latter case, they agreed that revenue for the supply of water should be recognised over the useful life of the asset, regardless of the period over which cash is received.

IASB Request for Views 2015 Agenda Consultation and IFRS Trustees' Request for Views Trustees' Review of Structure and Effectiveness

The EFRAG CFSS was informed on the IASB's preliminary analysis of the response received by the IASB and the Trustees on their consultations. In general, replies to the IASB were consistent with the messages included in the EFRAG's comment letters, with some more focus on the role of the IFRS Interpretation Committee and its rejection notices. The EFRAG CFSS did not have additional comments or recommendations.

Accounting for Inflation

The EFRAG CFSS considered a paper prepared by the Group of Latin American Accounting Standard Setters (represented by the Mexican and Argentinian Standard Setters) on accounting for inflation that proposed to lower the threshold currently included in IAS 29 *Financial Reporting in Hyperinflationary Economies* from 100% to 26%, so that the standard addresses not only hyperinflation, but also high inflation situations.

Some EFRAG CFSS members acknowledged that the issue could be significant in some parts of the world and also agreed that a simple decrease of the threshold would not be enough to address this issue. However, from a European perspective, the EFRAG CFSS members maintained their support for the views expressed by EFRAG in its comment letter in response to the 2015 IASB *Agenda Consultation* to remove the *Inflation* project from the research agenda.

IASB Research Project *Share-based Payment*

The EFRAG CFSS was informed of the research conducted so far by the IASB into the accounting for share-based payments and the possible next steps for that project.

The EFRAG CFSS was generally of the view that a post-implementation review of IFRS 2 *Share-based Payment* could be helpful to provide insight on what was causing difficulties and complexity in the application of this guidance. It would also allow the IASB to collect the views of users on whether IFRS 2 was providing the type of information they needed. It was also suggested that the IASB could consider again the research conducted by the French Standard Setter (Autorité des Normes Comptables).

IASB Project *Business Combinations under Common Control*

The EFRAG CFSS received an update on the current developments of the IASB's Business Combinations under Common Control (BCUCC) project and discussed the results of the research and outreach conducted by the IASB staff and the proposed direction of the project.

The EFRAG CFSS expressed support for applying the predecessor method as the default method for accounting for BCUCC except for transactions exhibiting certain characteristics for which the acquisition method in IFRS 3 *Business Combinations* would apply. Regarding the date on which entities should be combined and whether the comparative information would be restated when applying the predecessor method, the EFRAG CFSS expressed mixed views with more preference for restatement of the comparative information.