



June 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.

June Publications

Final Endorsement Advices

On 6 June, EFRAG submitted its endorsement advice letter to the European Commission regarding *Disclosure Initiative - Amendments to IAS 7* for use in the European Union and European Economic Area.

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

On 8 June, EFRAG submitted its endorsement advice letter to the European Commission regarding *Deferred Tax Assets for Unrealised Losses: Amendments to IAS 12* for use in the European Union and European Economic Area.

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

June 2016 meetings

This edition of the EFRAG Update contains summaries of meetings held in June 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 16 June

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

- IFRS 16 *Leases*
- IASB Project *Insurance Contracts*
- EFRAG Proactive Work on Goodwill, Impairment and Amortisation
- EFRAG Proactive Work on Application Issues in Discounting
- EFRAG Work Plan

IFRS 16 *Leases*

The EFRAG Board considered the request for endorsement advice from the European Commission and the process for developing such advice. No decisions were made at the meeting.

IASB Project *Insurance Contracts*

The EFRAG Board received a general briefing on the forthcoming IFRS on insurance contracts and decided to consider specific issues related to the forthcoming IFRS at future meetings.

EFRAG Proactive Work on Goodwill, Impairment and Amortisation

The EFRAG Board considered a quantitative study undertaken by EFRAG Secretariat. The EFRAG Board decided that it should be developed for publication, incorporating some international content.

EFRAG Proactive Work on Application Issues in Discounting

The EFRAG Board considered the future of the project. The EFRAG Board decided to establish a working group to consider the scope of future work.

EFRAG Work Plan

The EFRAG Board approved the work plan as submitted, subject to considering the draft endorsement advice on changes to IFRS 2 *Share-based Payment* in a public meeting.

EFRAG Board – June written procedures

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

- EFRAG's endorsement advice letter to the European Commission regarding *Recognition of Deferred Tax Assets for Unrealised Losses- Amendments to IAS 12*
- EFRAG's endorsement advice letter to the European Commission *Disclosure Initiative - Amendments to IAS 7*

EFRAG Board – Expected July written procedures

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

- EFRAG's letter to the European Commission regarding the endorsement of the IASB Publication *Clarifications to IFRS 15 Revenue from Contracts with Customers*
- EFRAG's draft comment letter on the IASB Exposure Draft ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests (Proposed amendments to IFRS 3 and IFRS 11)*

EFRAG TEG meeting on 30 June

At its meeting on 30 June, EFRAG TEG discussed:

- IFRS 16 *Leases*
- IASB Project *Insurance Contracts*
- IASB Exposure Draft ED/2015/11 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
- IASB's Publication *Clarifications to IFRS 15 Revenue from Contracts with Customers*
- IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*
- EFRAG Proactive Work on Transactions with Governments

IFRS 16 *Leases*

EFRAG TEG discussed the revised drafting of Appendices 1 and 2 of EFRAG's forthcoming draft endorsement advice and agreed to recommend them to the EFRAG Board, subject to drafting improvements.

EFRAG TEG also discussed a simulation of the quantitative impacts of applying IFRS 16 based on a sample of listed companies.

IASB Project *Insurance Contracts*

EFRAG TEG was provided with an update on the work being undertaken with EFRAG IAWG on issues requiring clarification and/or understanding relating to the forthcoming insurance contracts Standard. No decisions were taken at the meeting.

IASB Exposure Draft ED/2015/11 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

EFRAG TEG had an initial discussion on the drafting of Appendices 1 and 2 of EFRAG's forthcoming draft endorsement advice, which will be continued once the Standard is issued. No decisions were taken at the meeting.

IASB Publication *Clarifications to IFRS 15 Revenue from Contracts with Customers*

EFRAG TEG considered the feedback received in response to EFRAG's draft endorsement advice. Considering the support received from constituents for the initial assessment, EFRAG TEG unanimously agreed to recommend a final endorsement advice to the EFRAG Board maintaining support for the adoption of the Amendments.

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

EFRAG TEG received an update on the IASB's latest discussions on the Conceptual Framework and considered an EFRAG paper on how the IASB could provide more guidance in the Conceptual Framework on the selection of measurement bases.

EFRAG TEG proposed changes to the paper that will be considered by EFRAG Board at the July meeting.

EFRAG Proactive Work on Transactions with Governments

EFRAG TEG discussed a possible scope for the project. Although mixed views were expressed as to the criteria to consider in scoping the project, EFRAG TEG members generally agreed that the project should not be limited to looking at whether transactions created assets and liabilities but also consider the issue from the perspective of depiction of the performance.

No decisions were taken at the meeting.

EFRAG CFSS meeting on 29 June

At its meeting on 29 June, in preparation for the July ASAF meeting, EFRAG CFSS discussed:

- IFRS Practice Statement *Application of Materiality to Financial Statements*
- IASB Agenda Consultation 2015
- IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting* and IASB Research Project *Financial Instruments with Characteristics of Equity*
- EFRAG Proactive Work on Goodwill, Impairment and Amortisation
- IASB Project *Primary Financial Statements*
- IASB Project *Disclosure Initiative - Changes in Accounting Policies and Estimates*

IFRS Practice Statement *Application of Materiality to Financial Statements*

EFRAG CFSS discussed possible changes to the guidance proposed by the staff of the IASB to address concerns raised by respondents in relation to:

- the identification of primary users, their information needs and expectations; and
- the need to illustrate the process of making judgements about materiality.

EFRAG CFSS members supported the aim of improving the clarity of the guidance in these areas. However, EFRAG CFSS members generally considered that the specific changes proposed changes would not achieve this aim or succeed in making the guidance more practical.

EFRAG CFSS reiterated their support for the approach suggested in EFRAG's comment letter to illustrate the process of making judgements on materiality.

IASB Agenda Consultation 2015

EFRAG CFSS received an update on the draft IASB work plan for 2017-2021. In general, members agreed with the direction and priorities of the work plan. Some members considered that research work on equity method and income taxes should have been given more priority and some had suggestions on additional research projects.

IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting* and IASB Research Project *Financial Instruments with Characteristics of Equity*

In relation to the Conceptual Framework, EFRAG CFSS members:

- did not support the suggestion that the Conceptual Framework should state that an essential characteristic of a liability is that it embodies an obligation to another party (or parties);
- considered that the illustrative example presented in the IASB staff paper, whereby an entity could choose to settle an instrument by transferring own shares or by paying an amount in cash, was not useful as a basis for the discussion of the role of 'economic compulsion'.
- did not object to the suggestion made by the IASB staff, to refine the proposals in the Exposure Draft *Conceptual Framework for Financial Reporting* on recognition when the probability of a flow of economic benefits is low. However, some members believed the guidance should also consider the unit of account and how to deal with unlikely outcomes that could have a high impact.

EFRAG Proactive Work on Goodwill, Impairment and Amortisation

EFRAG CFSS was informed of a quantitative study undertaken by EFRAG Secretariat in collaboration with the staff of the Accounting Standards Board of Japan (ASBJ). The study contained quantitative data relating to goodwill and goodwill impairment trends in the financial statements of a sample of listed entities in Europe, US, Japan and Australia, for the period from 2007 to 2014. EFRAG CFSS noted that the quantitative study was interesting but not in itself sufficient to provide clear indications of whether and how accounting treatment of goodwill should be changed. Some members made suggestions for further enhancements to the study.

IASB Project *Primary Financial Statements*

EFRAG CFSS members generally supported the IASB's decision to focus its research project on the structure and content of the statement of financial performance and to investigate whether there is any demand for changes in the statements of cash flows and of financial position. Many members suggested that the IASB could develop general principles that would assist management

to disaggregate information in the statement of financial performance. Further, some believed that a practice statement setting out general principles on the use of Alternative Performance Measures (“APM”) could be useful, particularly when these measures are mentioned in the primary financial statements.

The staff of the UK Financial Reporting Council presented a draft Discussion Paper *Improving the Statement of Cash Flows*. EFRAG CFSS members considered that the Statement of Cash Flows could be improved and highlighted a number of specific issues that needed to be addressed, including some of the definitions and options that exist in IAS 7 *Statement of Cash Flows* and the linkage between the different primary financial statements.

IASB Project Disclosure Initiative - Changes in Accounting Policies and Estimates

EFRAG CFSS discussed draft proposed amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, aimed at clarifying the distinction between changes in accounting policies and changes in accounting estimates. EFRAG CFSS members generally acknowledged that there was a need to clarify this aspect of IAS 8 but felt that the draft proposed amendments could be improved. Defining accounting policies only as ‘principles’ was deemed too restrictive by some. Others noted that the draft proposed amendments did not address issues such as the distinction between a change estimate and an error, or the disclosure requirements relating to changes in accounting estimates.