

February 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.

February Publications

Letter to the European Commission

On 18 February, a letter was sent to the European Commission to recommend postponement of the endorsement process for *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*. For more details please see the [EFRAG website](#).

Final Endorsement Advice

A final endorsement advice on the *Annual Improvements to IFRSs 2012-2014 Cycle* was published on 4 February. For more details see the [EFRAG website](#).

Draft Comment Letters

A draft comment letter in response to the IASB Exposure Draft *Disclosure Initiative (Proposed amendments to IAS 7)* was published on 12 February. For more details please see the [EFRAG website](#).

Feedback Statements

A feedback statement summarising the input received during the outreach activities conducted with European users on the IASB's Discussion Paper *Reporting the Financial Effects of Rate Regulation* was published on 12 February. For more details please see the [EFRAG website](#).

A feedback statement summarising the responses received to the EFRAG Short Discussion Series paper *Levies: what would have to be changed in IFRS for a different accounting outcome?* was published on 9 February. For more details please see the [EFRAG website](#).

A feedback statement summarising the responses received to the EFRAG Short Discussion Series paper *Presentation of the reversal of acquisition step-ups* was published on 5 February. For more details please see the [EFRAG website](#).

A feedback statement summarising the responses received to EFRAG/OIC/ASBJ Discussion Paper *Should Goodwill Still Not Be Amortised?* was published on 4 February. For more details please see the [EFRAG website](#).

February 2015 meetings

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

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

Detailed meeting reports

EFRAG Board – Meeting on 10 February

The EFRAG Board met on 10 February. The technical topics discussed were:

- IFRS 9 *Financial Instruments*;
- IFRS 15 *Revenue from Contracts with Customers*;
- IASB Publication *Investment Entities: Applying the Consolidation Exemption*;
- IASB Project *The Conceptual Framework*; and
- EFRAG work plan.

Details of the discussions are summarised below.

IFRS 9 *Financial Instruments*

The EFRAG Board continued its planned series of discussions on developing a draft endorsement advice. Topics considered at this meeting for inclusion in the draft endorsement advice were the draft summary of IFRS 9 and draft cost-benefit analysis. The EFRAG Board also considered papers addressing prudence (from the perspective of endorsement), the relationship between IFRS 9 and its predecessor IAS 39 *Financial Instruments: Recognition and Measurement*, and possible impacts on issuer behaviour. The discussion will continue at the EFRAG Board's March meeting.

IFRS 15 *Revenue from Contracts with Customers*

The EFRAG Board approved, subject to drafting, the final endorsement advice to the European Commission which included a recommendation that IFRS 15 be endorsed for application in Europe. The EFRAG Board considered whether to recommend deferral of the effective date of IFRS 15 beyond the date included in the Standard, and concluded that it would be preferable for it to be applied in Europe on the same basis as other jurisdictions applying IFRS.

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

The EFRAG Board considered the contents of the amendments published in December 2014, and the request for endorsement advice, and requested EFRAG TEG to prepare a draft endorsement advice.

IASB Project *The Conceptual Framework*

In preparation for the forthcoming Exposure Draft, the EFRAG Board considered some issues that had arisen when EFRAG prepared its comment letter on the Conceptual Framework Discussion Paper in 2014. No decisions were taken.

EFRAG work plan

The EFRAG Board approved the work plan as presented.

EFRAG Board – February written procedures

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

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

EFRAG Board – Expected March written procedures

During March, the EFRAG Board are expected to approve the following document using written procedures:

- EFRAG draft comment letter in response to the IASB Exposure Draft *Classification of liabilities (Proposed amendment to IAS 1)*.

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

EFRAG Technical Expert Group – Meeting 26-27 February

EFRAG TEG met on 26-27 February and discussed:

- IFRS 9 *Financial Instruments*;
- IASB Publication *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)*;
- IASB Exposure Draft *Classification of Liabilities (Amendments to IAS 1)*;
- IASB Project *The Conceptual Framework*;
- IASB Project *Insurance Contracts*;
- IASB Project *Leases*; and
- EFRAG Research Project *Statements of Cash Flows for Financial Institutions*.

IFRS 9 *Financial Instruments*

EFRAG TEG discussed a draft endorsement advice. EFRAG TEG members agreed on the content of the draft endorsement advice subject to drafting, except one member who dissented. EFRAG TEG members agreed to submit the messages in the draft endorsement advice to the EFRAG Board, including the dissenting opinion.

On the relation between IFRS 4 *Insurance Contracts* and IFRS 9, further work was requested from EFRAG staff in order to quantify the implementation costs involved. Based on the results of this quantification EFRAG TEG members will assess in March 2015 how to integrate this issue in the draft endorsement advice.

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

EFRAG TEG discussed a paper addressing an anticipated issue of loss of financial information resulting from the exemption from presenting consolidated financial statements addressed by the Amendments. EFRAG TEG acknowledged it was a valid issue, however, not one that arose from the Amendments.

EFRAG TEG recommended a positive draft endorsement advice on the Amendments on the basis that the Amendments were clarifying existing guidance and provided relief to preparers of financial statements. EFRAG TEG emphasised in its conclusions that the exemption was available subject to a series of conditions that EFRAG TEG considered help achieve a reasonable cost/benefit trade-off. The EFRAG Board will discuss the draft endorsement advice at its April meeting.

IASB Exposure Draft *Classification of Liabilities (Amendments to IAS 1)*

EFRAG TEG recommended a draft comment letter on the Exposure Draft to the EFRAG Board, subject to drafting. The letter supports the amendments but recommends that additional guidance is provided to assess whether a right to defer settlement exists in situation where that right is contingent upon events or conditions that are determined after the reporting period.

IASB Project *The Conceptual Framework*

EFRAG TEG discussed how profit or loss could be described in order to provide guidance on a conceptual level on what items should be included in Profit or Loss and what items should be included in Other Comprehensive Income. EFRAG TEG will consider a revised version of a paper

considering the issue at a later meeting.

IASB Project *Insurance Contracts*

EFRAG TEG members received a verbal update on the IASB's discussions in February relating to the level of aggregation of insurance contracts. EFRAG TEG members also received a summary of key highlights from the CFO Forum's response to the IASB questions on the Alternative Proposal for the accounting for participating contracts.

No decisions were taken.

IASB Project *Leases*

EFRAG TEG discussed a draft of a paper on the presentation of lease liabilities under the different models of the IASB and FASB, and the potential impact of recognition of operating leases on financial covenants. The paper was intended to provide input to the EFRAG Board discussion.

In general, EFRAG TEG members were supportive of the content of the paper. It was noted that there is no clear evidence that the issue about potential breach of covenants is a significant concern.

EFRAG Research Project *Statements of Cash Flows for Financial Institutions*

EFRAG TEG discussed a revised paper to discuss issues and possible improvements to the statement of cash flows for financial institutions (banks and insurance companies). EFRAG TEG members agreed that the statement of cash flows does not provide the best information on a bank or insurance company's liquidity or solvency. EFRAG TEG also discussed how these institutions measure success in creating value to finance organic growth.

EFRAG TEG will consider a draft EFRAG Short Discussion Series paper at a future meeting.