



June 2017

## 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

#### **Feedback Statement**

On 13 June, EFRAG published a feedback statement following the publication of its final comment letter on the IASB's Exposure Draft ED/2017/3 *Prepayment Features with Negative Compensation (Proposed amendments to IFRS 9)*.

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

#### **Draft Comment letter**

On 8 June, EFRAG published its draft comment letter in response to the IASB's Discussion Paper DP/2017/1 *Disclosure Initiative - Principles of Disclosure* and seeks constituents' views on the proposals. Comments are requested by 11 September 2017.

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

#### **Discussion Paper**

On 29 June, EFRAG published its Discussion Paper *Goodwill Impairment: Can it be improved?* This discusses a number of possible ways of improving to the goodwill impairment test with the view to enhancing its application and effectiveness and reducing complexity. Comments are requested by 31 December 2017.

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

## June 2017 meetings and conference calls

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

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

## Detailed meeting reports

### EFRAG Board – June written procedures

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The EFRAG Board was not presented with any document for approval using written procedures during June 2017.

### EFRAG Board – Expected July written procedures

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

- EFRAG's Draft Comment Letter on IASB Exposure Draft ED/2017/4 *Property, Plant and Equipment - Proceeds before Intended Use (Proposed amendments to IAS 16)*
- EFRAG's Final Comment Letter on IASB Exposure Draft ED/2017/2 *Improvements to IFRS 8 Operating Segments (Proposed amendments to IFRS 8 and IAS 34)*

### EFRAG CFSS and EFRAG TEG meeting on 28 June

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At its [meeting on 28 June](#), EFRAG CFSS and EFRAG TEG discussed:

- IASB Exposure Draft ED/2017/2 *Improvements to IFRS 8 Operating Segments (Proposed amendments to IFRS 8 and IAS 34)*
- IASB Exposure Draft ED/2017/4 *Property, Plant and Equipment - Proceeds before Intended Use (Proposed amendments to IAS 16)*
- IASB Discussion Paper DP/2017/1 *Disclosure Initiative - Principles of Disclosure*
- IASB Project *Rate-regulated Activities*
- IASB Project *Post-Implementation Review IFRS 13 - Fair Value Measurement*
- IASB Research Project *Goodwill and Impairment*
- IASB Research Project *Primary Financial Statements*
- Wider Corporate Reporting

### Exposure Draft ED/2017/2 *Improvements to IFRS 8 Operating Segments (Proposed amendments to IFRS 8 and IAS 34)*

EFRAG CFSS and EFRAG TEG discussed the proposed amendments to IFRS 8 *Operating Segments* and IAS 34 *Interim Financial Statements* and the preliminary views contained in EFRAG's draft comment issued in April 2017.

EFRAG CFSS generally concurred with the preliminary views and, in particular, shared EFRAG's concerns about the proposed requirement to explain in the notes any differences between the reportable segments presented in the financial statements and those presented in other parts of the annual reporting package. Some CFSS members questioned whether the proposed amendments to IFRS 8 were needed at all as entities were required to report operating segment information based on a management perspective. Prescriptive guidance on aggregation of reportable segments was considered unnecessary and might lead to confusion in the application of the requirements.

### IASB Exposure Draft ED/2017/4 *Property, Plant and Equipment - Proceeds before Intended Use* (Proposed amendments to IAS 16)

EFRAG CFSS and EFRAG TEG generally supported the proposed amendments. However, some members indicated that the proposed definition of ‘testing’ should be removed as it could provide practical challenges. Other members suggested that a more conceptual justification should be provided on the scope of the amendment and questioned whether the scope should be expanded to include a discussion on when an item of property, plant and equipment is available for use.

### IASB Discussion Paper DP/2017/1 *Disclosure Initiative - Principles of Disclosure*

EFRAG CFSS members were invited to provide their preliminary views on the IASB Discussion Paper and on the preliminary assessment made by EFRAG in its draft comment letter. Some members indicated that they had already started their internal discussions to respond to EFRAG’s consultation and that at this stage they were generally supportive of the tentative views expressed in the draft comment letter. Some members suggested that the final comment letter should include a broader discussion on the role of general purpose financial statements in the context of the developments in technology.

### IASB Project *Rate-regulated activities*

EFRAG CFSS and EFRAG TEG expressed overall support for the proposed accounting model for entities operating in defined rate regulation. Some members agreed that the rights and obligations arising from the regulatory agreement meet the definitions of assets and liabilities under the IASB forthcoming revised *Conceptual Framework*. Some others felt that further analysis is needed of whether the entity controls the right to increase prices in future periods. Those members noted that the entity could not compel its customers to buy goods or services in the future. Furthermore, members suggested that the illustrative examples should be expanded to consider more complex examples of real-life situations including cases with profit margins which are generally included in the regulated rate.

### IASB Project Post-Implementation Review *IFRS 13 - Fair Value Measurement*

EFRAG CFSS and EFRAG TEG members generally supported the four areas of focus identified by the IASB in its Request for Information but considered that the following issues should also be considered in the planned outreach activities on the post-implementation review:

- (a) whether there are opportunities to simplify IFRS 13; and
- (b) whether Levels 1, 2 and 3 disclosures were practical and fit for purpose

### IASB Research Project *Goodwill and Impairment*

EFRAG CFSS and EFRAG TEG discussed subsequent accounting for goodwill and impairment including two draft research papers prepared by the Accounting Standards Board of Japan (ASBJ) that proposed an accounting option for the subsequent accounting for goodwill, and outlined results of outreach undertaken with analysts in Japan.

Members welcomed the ASBJ’s efforts to undertake the research. However, several members expressed doubts about whether introducing a new accounting policy choice would improve financial reporting. Members also considered that it would be helpful to have a wider and more representative sample in the outreach work with analysts in order to better understand why analysts would accept an accounting option in this area.

Members considered the IASB Staff proposals to improve the simplifications and effectiveness of the impairment test. Members noted that the issues raised in the IASB Staff paper, together with some suggested ways of addressing these issues, are similar to those included in the EFRAG

Discussion Paper issued on 29 June 2017. The EFRAG Discussion Paper is open for consultation until the end of 2017 and views from EFRAG CFSS members and other constituents are welcome.

### IASB Research Project *Primary Financial Statements*

EFRAG CFSS and EFRAG TEG discussed the use of additional subtotals in the statement(s) of financial performance – earnings before finance income/expenses and tax (EBIT) and Management Performance Measures – and the presentation of investments in associates and joint ventures.

Members acknowledged that EBIT and Management Performance Measures are often used in practice and that additional guidance could bring more transparency and consistency on their use. However, some members expressed concerns about having a prescriptive definition of EBIT and requiring its use as it would raise industry-specific issues (e.g. financial institutions). Similarly, members also expressed concerns about requiring the use of Management Performance Measures and elevating them into an IFRS-defined term.

Finally, members considered that the IASB should explore further the presentation of investments in associates and joint ventures as its presentation could depend on whether an investee is 'embedded' within the operations of the investor or is similar to an investment.

### Wider Corporate Reporting

EFRAG CFSS and EFRAG TEG discussed the summary of the work undertaken by the IASB staff to date. Members were of the view that the IASB's primary focus should remain on financial reporting. However, members considered that it was important that the IASB continue to monitor the wider corporate reporting debate so that it is fully aware of any developments and can take steps, if and when appropriate, to maintain the relevance of IFRS Standards as corporate reporting develops. Members were generally not in favour of updating the *Management Commentary Practice Statement* because it was not widely used in their jurisdictions. However, some members noted that there could be jurisdictions outside Europe that use the Practice Statement.

### EFRAG TEG meeting on 29 June

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At its [meeting on 29 June](#), EFRAG TEG discussed:

- IASB Exposure Draft ED/2017/4 Property, Plant and Equipment – Proceeds before Intended Use (Proposed amendments to IAS 16)
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- EFRAG's Research Project *Equity Instruments – Impairment and Recycling*
- EFRAG's Research Project *Pensions*

### *IASB Exposure Draft ED/2017/4 Property, Plant and Equipment - Proceeds before Intended Use (Proposed amendments to IAS 16)*

EFRAG TEG agreed to recommend a draft comment letter to the EFRAG Board for approval expressing overall support for the proposed amendments. Because EFRAG TEG had doubts about whether the issue being addressed is widespread, a question to constituents was added to the draft letter for consideration by the EFRAG Board. EFRAG TEG also proposed that the definition of ‘testing’ contained in the exposure draft should be removed (see also summary of the discussions at the EFRAG CFSS-TEG meeting above).

### *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*

EFRAG TEG considered the tentative decision by the IASB to lower the impracticability threshold for voluntary changes in accounting policies that result from agenda decisions by the IFRS IC. EFRAG TEG generally agreed that the proposed threshold could include a consideration of the benefits and costs of applying the change retrospectively.

However, members noted that there may be procedural implications for the process for issuing agenda decisions that should be considered before the proposal is finalised. Issues warranting consideration include whether the comment period is sufficient and whether there should be a delay between the issuance of an agenda decision and its effective date.

No decisions were taken at the meeting.

### *EFRAG Research Project Equity Instruments – Impairment and Recycling*

EFRAG TEG was updated on plans to address the European Commission’s request for technical advice and discussed other aspects of the project including details of a ‘lower of cost and fair value’ impairment approach for equity instruments. EFRAG TEG indicated that the model could be included in a future publication.

No decisions were taken at the meeting.

### *EFRAG Research Project Pensions*

EFRAG TEG considered a few examples illustrating the effects of various approaches for accounting for return-based defined benefit pension liabilities. Among other things, members discussed whether, in some cases, it would not be possible to estimate the fair value of a return guarantee reliably and how a fulfilment value model could be applied.

No decisions were taken at the meeting.