



EFRAG UPDATE

APRIL 2018

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.

PUBLICATIONS

Final Endorsement Advice

On 24 April, EFRAG submitted to the European Commission its Endorsement Advice relating to the use in the European Union and European Economic Area of the IASB's Publication *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*.

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

Draft Comment Letter

On 24 April, EFRAG published its Draft Comment Letter in response to the IASB's Exposure Draft ED/2018/1 *Accounting Policy Changes (Proposed amendments to IAS 8)* and seeks constituents' views on the proposals. Comments are requested by 13 July 2018.

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

2018 Research Agenda Consultation

On 5 April, EFRAG published its 2018 Research Agenda Consultation to seek public input on the strategic direction of its research activities. Comments are requested by 1 June 2018.

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

Invitation to an IFRS 17 User Outreach

On 11 April, EFRAG published an invitation to users of the financial statements of insurance companies to participate in an outreach on the effects of IFRS 17 *Insurance Contracts*. The objective is to gather views from both specialist and non-specialist users through structured interviews. Expressions of interest in participating in this outreach are requested by close of business on Friday 11 May 2018.

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



OPEN CONSULTATIONS

Title and description	Closing date
EFRAG IFRS 17 User Outreach	11 May 2018
EFRAG Discussion Paper <i>Equity Instruments – Impairment and Recycling</i>	25 May 2018
Simplified case study - IFRS 17 <i>Insurance Contracts</i>	31 May 2018
2018 EFRAG Research Agenda Consultation	1 June 2018
EFRAG Draft Comment Letter on the IASB's Exposure Draft ED/2018/1 <i>Accounting Policy Changes (Proposed amendments to IAS 8)</i>	13 July 2018

For more information please see [EFRAG's consultations page](#).

EFRAG BOARD

Meeting

The EFRAG Board met on [23 April 2018](#) and discussed the following topics:

IASB Publication *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*

The EFRAG Board confirmed that EFRAG's final endorsement advice as per the written procedure was approved on a consensus basis.

IASB Exposure Draft ED/2018/1 *Accounting Policy Changes (Proposed amendments to IAS 8)*

The EFRAG Board approved the issuance of the draft comment letter based on the recommendation of EFRAG TEG, with minor amendments. The EFRAG Board decided to remove the suggestion that the IASB should develop an example to illustrate the application of the assessment of costs and benefits because the Board doubted that such an example would be useful.

IFRS 17 *Insurance Contracts*

The EFRAG Board considered the project plan and issues associated with reinsurance. The EFRAG Board decided to invite representatives of the actuarial profession and the reinsurance industry to present their views on IFRS 17 at the EFRAG Board meetings in May and July respectively.

The EFRAG Board agreed to add additional meetings on 3 September and 4 December to the 2018 calendar to discuss the draft and final endorsement advice.



EFRAG Research activities

The EFRAG Board considered the status of the EFRAG research activities. No decisions were made.

EFRAG Technical work plan

The EFRAG Board approved the technical work plan as presented, subject to the additional meetings.

April 2018 written procedures

The EFRAG Board has not approved any documents using written procedures in April.

Expected May 2018 written procedures

The EFRAG Board is expected to approve the following documents, using written procedures in May:

- EFRAG Final Endorsement Advice on *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*.
- EFRAG Draft Endorsement Advice on IASB publication - *Amendments to References to the Conceptual Framework in IFRS Standards*.

EFRAG CFSS AND EFRAG TEG MEETING

At its meeting on [5 April 2018](#) EFRAG CFSS and EFRAG TEG discussed the following topics:

IASB Exposure Draft ED/2017/5 *Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)*

EFRAG TEG and EFRAG CFSS considered the feedback received by the IASB in response to its consultation and discussed whether and how an illustrative example, developed by the IASB staff, should be included in the final amendments.

Members generally agreed that examples could be helpful to illustrate the thought process for distinguishing accounting policies from accounting estimates and how the proposed principles in the Exposure Draft would help clarify this distinction.

Some members also considered that the choice of an example based on IAS 2 *Inventories* could create confusion with the proposed guidance on selecting a cost formula for interchangeable inventories also contained in the Exposure Draft and reiterated the view that such guidance should not be included in IAS 8, as proposed, but instead in IAS 2.

IASB Research Project *Disclosure Initiative—Principles of Disclosure*

EFRAG TEG and EFRAG CFSS discussed the feedback received by the IASB in response to its consultation and the tentative decisions made by the IASB at its March meeting. Members generally agreed with giving priority to developing drafting guidance and testing it on targeted IFRS Standards but highlighted the importance of carefully selecting the standards to have the meaningful testing.

Members also discussed the issues on which the IASB will be seeking input at the April ASAF meeting and generally reiterated the views, already expressed in EFRAG comment letter that:



- the guidance on the use of cross-references could be helpful but should remain principles-based and not refer to specific documents;
- the proposed guidance on non-IFRS should be better targeted in order to avoid unnecessary clutter; and
- guidance on disclosure of accounting policies should focus on the areas where judgement is most needed and in particular on accounting policies that relate to items, transactions or events that are material to the financial statements without necessarily being entity-specific (identified as 'Category 2' in the Discussion Paper).

IASB Research Project *Rate-regulated Activities*

EFRAG TEG and EFRAG CFSS discussed the IASB's tentative decisions on the proposed accounting model for rate-regulated activities. Members were generally supportive of linking the unit of account to the individual timing differences as this appeared consistent with industry practice. However, it was acknowledged that the IASB had not taken a tentative decision on the presentation of regulatory assets and liabilities.

Some members were not convinced that rate adjustments arising from defined rate regulation met the definitions of assets and liabilities under the revised *Conceptual Framework for Financial Reporting*. Other members questioned the need for specific accounting guidance if the IASB had concluded that these adjustments met the definitions of assets and liabilities. Furthermore, some members noted that, if guidance was developed, there was a risk of broadening the intended scope as companies might apply the guidance by analogy to other transactions that created rights and obligations similar to those in defined rate regulation. Overall, it was suggested to explore more precisely which activities would fall within the scope and why.

IASB Research Project *Primary Financial Statements*

EFRAG TEG and EFRAG CFSS discussed improvements to the guidance on aggregation and disaggregation in IAS 1 *Presentation of Financial Statements* and the application of the IASB's tentative decisions to financial institutions.

In general, members did not oppose having additional guidance, such as indicators, that would help entities determine whether they should use a by-function or by-nature presentation. However, members disagreed with having quantitative thresholds to promote more disaggregation. Some members highlighted that entities often mix a by-nature and by-function presentation, that the absence of disclosures on the nature of expenses is a compliance issue and that the proposed clarification requiring entities to provide a by-nature disaggregation of each of the functional line items would increase the costs and complexity of current requirements.

Lastly, members doubted that some of the tentative decisions of the IASB for non-financial institutions could be applied to financial institutions – for instance, an EBIT sub-total does not seem relevant. They suggested to consider first the information objectives before discussing structures and pointed out that single models may not work even within industries.

IASB Research Project *Goodwill and Impairment*

EFRAG TEG and EFRAG CFSS discussed the updated headroom approach and other developments being considered by the IASB as part of a collective package of potential amendments to improve the effectiveness of the goodwill impairment test.



Members generally expressed concerns on the updated headroom approach. The main concern related to perceived complexity in applying the approach and, given the inherent arbitrariness in allocating reductions between the recognised goodwill and the unrecognised headroom, doubts over the usefulness of the resulting information. Some members thought that a pro-rata allocation would be preferable to a rebuttable presumption, noting that determining when the presumption would be rebutted might be difficult and subjective. Some members reiterated that amortisation of goodwill would be a simpler way to address delays in the recognition of goodwill impairment.

In relation to separating intangible assets from goodwill, members felt that the various approaches under consideration would each need further clarification and development in order to assess their pros and cons.

IASB Research Programme and Post-Implementation Review of IFRSs 10, 11 and 12

EFRAG TEG and EFRAG CFSS noted the IASB's plans for addressing the projects in its research pipeline.

On the forthcoming post-implementation review of IFRSs 10, 11 and 12, members considered that the focus should be on IFRS 11 *Joint Arrangements* as that standard is considered to have created more issues. Members were of the view that the post-implementation review should start as soon as possible.

Commodity loans and related transactions and ASBJ's project *Virtual Currencies*

EFRAG TEG and EFRAG CFSS considered how frequently entities were holding commodities, digital currencies, emissions allowances or other assets such as artwork for investment purposes or used such items in a similar way to cash. While there were differences between industries and jurisdictions, such activities were generally not common. Members also discussed how the IASB could develop guidance for the circumstances mentioned above. The existing principles in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* on developing accounting policies in the absence of specific requirements in IFRS were generally considered adequate. Members did not express support for a single standard covering all the transactions discussed above and preferred addressing the issues by using the existing guidance in IAS 8 or targeted amendments to other standards such as IFRS 9. Virtual currencies in their view merited a separate treatment.

Members also considered an overview of the accounting requirements for virtual currencies under Japanese GAAP published by the Accounting Standards Board of Japan (ASBJ) in March 2018. Members welcomed the ASBJ's initiative, which responded to a request for guidance from national authorities. However, in terms of IFRS reporting, it was considered that further work was needed to understand the different legal and regulatory frameworks and the different types of virtual currencies, before progress could be made on this topic.

IFRS Foundation Due Process Handbook Review

EFRAG TEG and EFRAG CFSS expressed their support for the proposed scope of the Due Process Handbook Review. Some members also emphasised the importance of improving the interaction between the IASB and IFRS IC and of increasing the transparency of the IFRS IC decision-making process.



AASB Paper *Is Financial Reporting Still an Effective Tool for Equity Investors in Australia?*

EFRAG TEG and EFRAG CFSS considered the Australian Accounting Standards Board (AASB) research paper *Is Financial Reporting Still an Effective Tool for Equity Investors in Australia?* There was agreement that both information in financial reports and non-financial information are relevant to assess the value of an entity.

EFRAG TEG MEETING

At its meeting on [6 April 2018](#), EFRAG TEG discussed the following topics:

IASB Exposure Draft ED/2018/1 *Accounting Policy Changes (Proposed amendments to IAS 8)*

EFRAG TEG unanimously agreed to recommend a draft comment letter for consideration by the EFRAG Board subject to limited drafting improvements. The draft comment letter considers there is merit in considering a threshold for relief from retrospective application based on costs and benefits for all voluntary changes in accounting policies, since this could reduce the burden for entities and promote greater consistency in the application of IFRS Standards. However, the draft comment letter does not support introducing a distinction between voluntary changes in accounting policies resulting from agenda decisions and other voluntary changes. The draft comment letter also suggests that, if the proposed amendments are finalised in their current form, further guidance will be needed to clarify the scope of the relief from retrospective application and to help preparers assess the benefits for users.

IASB Research Project *Business Combinations under Common Control*

EFRAG TEG considered a practical example on the application of different methods to account for business combinations under common control. The example involved a transaction that changed the participation by non-controlling interests in the combining entities. For that particular example, most members thought the acquisition method of accounting would be the most appropriate way to account for the transfer.

No decisions were taken and the discussion will be continued at a future EFRAG TEG meeting.

IASB Research Project *Financial Instruments with Characteristics of Equity*

The EFRAG TEG discussed the EFRAG Secretariat's preliminary impact assessment of the IASB's expected proposals on the classification and presentation of financial instruments with characteristics of equity.

Members noted the current lack of disclosures about the key characteristics of financial instruments classified as equity and considered that disclosures should be a key part of the IASB's research project. Some members also considered that it would be important to assess possible impacts on regulatory capital and understand whether the resulting classification and presentation changes would produce improved information to users.

No decisions were taken at the meeting.

EFRAG Research Project *Transactions other than Exchanges of Equal Value*

EFRAG TEG discussed an initial draft of some of the sections of the forthcoming Discussion Paper. The discussion focused on Chapters 1 to 4 describing the objective and scope of the



project, the proposed accounting model and its implications, and providing a number of illustrative examples.

Members generally reiterated their support for the proposed approach and made a number of suggestions to improve the document.

No decisions were taken at the meeting.

UK FRC Research Project *First Thoughts on Intangibles*

The UK FRC Research Director presented some preliminary analysis from the UK FRC Research project on Intangibles. The presentation noted that recognition and measurement of intangibles either at cost or fair value may involve uncertainty and may create issues with reliable measurement. Qualitative information and appropriate metrics in the notes or in other parts of the annual report should be investigated. EFRAG TEG expressed their support for the Research project, which addresses an important reporting issue, and noted that this topic might be added to the EFRAG Research agenda following the ongoing consultation on the future agenda. It was noted that some quantitative information would be required to meet the information needs of users and there was some discussion about the most appropriate location. It was also noted that valuation methodologies continue to develop for an increasing range of intangible resources.