

December 2013

Summary of EFRAG Technical Expert Group (TEG) and Consultative Forum of Standard Setters (CFSS) meetings December 2013

EFRAG CFSS held meeting on 28 November 2013 in preparation for the Accounting Standards Advisory Forum meeting of 5 and 6 December 2013.

On 17 and 18 December 2013 EFRAG TEG held its monthly meeting. The following topics were discussed:

- ◆ EFRAG Paper *The equity method: Measurement basis or one-line consolidation?*
- ◆ IASB Project *Insurance Contracts*
- ◆ Defined Benefit Plans: Employee Contributions – Amendments to IAS 19
- ◆ IASB Project *Accounting for Macro Hedging*
- ◆ The Conceptual Framework for Financial Reporting
- ◆ IASB Project *IFRS 9 Financial Instruments – Classification and Measurement: Limited Amendments to IFRS 9*
- ◆ Accounting for Long-Term Investment Business Models
- ◆ IASB Exposure *Draft Separate Financial Statements (Equity Method)*
- ◆ IASB Exposure *Draft Annual Improvements to IFRSs 2012-2014 Cycle*
- ◆ IFRS 11 *Joint Arrangements*

Accounting Standards Advisory Forum

At the 28 November 2013 CFSS meeting, members discussed the papers for the December meeting of the Accounting Standards Advisory Forum (ASAF):

- ◆ Profit and loss, other comprehensive income and recycling;
- ◆ Stewardship;
- ◆ Reliability;
- ◆ Definition, recognition and measurement of liabilities;
- ◆ IFRS 3 post implementation review; and
- ◆ Rate regulation

In addition, members discussed a paper on the implication for standard setting resulting from academic findings on how financial information is used.

Members had different views on whether stewardship should be considered as a separate objective of financial reporting. There was however a majority in favour of the EFRAG-FRC tentative view as published in the Bulletin dealing with Accountability.

There was unanimous support for adjusting the conceptual framework chapter dealing with qualitative characteristics so as to eliminate any possibility to have relevance systematically trumping reliability and recognition of items that cannot be measured with a sufficient level of reliability.

EFRAG CFSS members had different views on whether a distinction between profit or loss and other comprehensive income should be maintained and on whether and how items included in other comprehensive income should be recycled to profit or loss. Members, however, agreed that the IASB *A Review of the Conceptual Framework for*

Financial Reporting failed to provide an adequate conceptual basis for distinguishing between profit or loss and other comprehensive income. Members appreciated the attempt that the Japanese standard setter had made in trying to find a conceptual basis, although members did not agree with the proposed distinguishing feature of irreversibility. The view was expressed that the business model could provide the necessary basis to distinguish between P/L and OCI.

Members also discussed a paper published by the Australian standard setter on *Liabilities - the neglected element: a conceptual analysis of the financial reporting of liabilities*. Members disagreed with many of the views expressed in the paper regarding the definition, recognition and measurement of liabilities

EFRAG CFSS members expressed support for the draft *Request for Information: Post-implementation Review of IFRS 3 Business Combinations*, believing it covered appropriate issues.

EFRAG CFSS members discussed the IASB Research Project *Rate Regulation*. It was noted that the project was at a very early stage. Members thought that it was important that the starting point for the project should be to consider the information that best depicts the economics of the rate-regulation rather than concentrating on the current definitions of assets and liabilities. They also considered that at Discussion Paper level, the IASB should analyse all rights and obligations that rate-regulated mechanisms can generate for entities and consider the appropriate accounting requirement for them.

Publication of the paper on the implication for standard setting resulting from academic findings on the use of financial information was supported by members

EFRAG Paper *The equity method: Measurement basis or one-line consolidation?*

At its December 2013 meeting, EFRAG TEG discussed a re-draft of an EFRAG paper discussing whether the equity method of accounting in IAS 28 *Investments in Associates and Joint Ventures* is better viewed as a one-consolidation method or as a measurement basis. In response to recent IASB proposals, it has been noted that existence of the concepts of both consolidation and measurement in IAS 28 is the cause of many of the uncertainties in the application of the equity method. The paper is aimed at stimulating debate within Europe and helping the IASB develop a conceptual basis for the equity method, so that issuers can relate to a robust principle basis instead of putting request after request for interpretation to the IFRS IC.

The paper is expected to be published in January 2014.

IASB Project *Insurance Contracts*

At its December 2013 meeting, EFRAG TEG approved a feedback statement summarising how constituent input was considered in the finalisation of the EFRAG comment letter. EFRAG TEG also considered the report on the joint field-testing of the IASB proposals conducted with the National Standard Setters of France, Germany, Italy and the UK and in coordination with the IASB Staff.

Defined Benefit Plans: Employee Contributions - Amendments to IAS 19

At its December 2013 meeting, EFRAG TEG members approved an invitation to comment on EFRAG's Draft Endorsement Advice on the amendments. These amendments clarify the guidance on attributing employee or third party contributions linked to service. These amendments also introduce a practical expedient that permits an entity to recognise employee or third party contributions linked to service, that are independent of the number of years of service, as a reduction in the service cost in the period in which the related service is rendered. EFRAG's draft endorsement advice is a recommendation to adopt the amendment.

IASB Project *Accounting for Macro Hedging*

At its December 2013 meeting, EFRAG TEG received a presentation from the IASB staff who provided background to the macro hedge accounting project and the upcoming release of a discussion paper. No decisions were taken at the meeting.

The Conceptual Framework for Financial Reporting

At its December 2013 meeting, EFRAG TEG approved the publication of a Bulletin on complexity subject to some changes and to finding agreement on the final drafting with EFRAG's partners. Before being published, approval will be sought from the ANC, ASCG, FRC and OIC.

In addition, EFRAG TEG considered comment letters received in response to its Bulletins on the asset/liability approach, accountability and the objective of financial reporting. EFRAG TEG discussed how the comments should be reflected in EFRAG's final comment letter in response to the IASB's discussion paper on the Conceptual Framework. EFRAG TEG also received an update on the feedback received from constituents at the outreach events held around Europe in partnership with National Standard Setters, so that these views could be considered in EFRAG's final comment letter. It was noted that constituents were not satisfied with the proposals in the Discussion Paper for distinguishing between profit or loss and other comprehensive income, because they lack a conceptual rationale. No decisions were taken at the meeting.

IASB Project *IFRS 9 Financial Instruments - Classification and Measurement: Limited Amendments to IFRS 9*

At its December 2013 meeting, EFRAG TEG members were provided with an update on the IASB's tentative decisions following comments received on the exposure draft. No decisions were taken.

Accounting for Long-Term Investment Business Models

At its December 2013 meeting, EFRAG TEG members discussed an analysis of selected responses to the European Commission Green Paper on long-term financing of the European economy. The analysis focused on the accounting related part, in particular on the question whether fair value has led to short-termism in investor behaviour. EFRAG TEG members noted that while the use of fair value on the balance sheet was generally seen as useful, its effects on profit or loss received criticism. In addressing the request from long-term investors both applications needed to be distinguished.

Based on input received from two long-term investors, EFRAG TEG discussed the relation between their asset and liability management on the one hand and their investment strategy on the other hand and concluded that there is no 'asset-driven' business model as envisaged earlier. The distinctive factor for these investments is their long term horizon which is evidenced by the way the investments themselves are managed.

EFRAG TEG discussed the effects of recycling gains on equities and the opportunity that it opened to entities to generate a stable profit, regardless of the evolution of their financial income in the period. EFRAG TEG members concluded that transparency was key in this area, and that where recycling of outstanding gains would take place, it was paramount, as EFRAG has already recommended, that the share of gains in the period be clearly distinguished from the gains that are recycled from previous periods, and the reasons for the level of sales in a given period be provided, so that users have a clear understanding of the performance of the entity in the period. Finally EFRAG TEG discussed the development of an impairment model for assets held in a long-term business model.

Some EFRAG TEG members preferred classifying equities in the fair value through other comprehensive income category. A lower of cost or market impairment model would be applied to these equities with recycling into profit or loss on derecognition. Other EFRAG TEG members questioned whether a lower of cost or market impairment model was appropriate for equities held in a long-term business model given that the impairment amount would be determined based on, amongst others, the market price which was considered irrelevant from a long-term perspective. Also, some members considered that using the cost of the equity instrument as the reference point from when to recognise impairment did not faithfully represent the impairment amount. No decision was made, other than to consider at a later meeting an EFFAS paper that had been published a few days before the meeting, that is proposing to consider the long term horizon of some investing activities in accounting for impairment losses.

IASB Exposure Draft Separate Financial Statements (Equity Method)

At its December 2013 meeting, EFRAG TEG discussed a summary of the early input received from National Standard Setters and considered the five questions in the exposure draft.

A number of drafting suggestions were made and a revised draft comment letter will be considered in January 2014.

IASB Exposure Draft Annual Improvements to IFRSs 2012-2014 Cycle

At its December 2013 meeting, EFRAG TEG received a briefing on the content of the Exposure Draft, which was issued by the IASB on 11 December 2013. The Exposure Draft includes proposed amendments to four current standards that address five issues that constituents raised to the IFRS Interpretations Committee and to the IASB. Directions were given to EFRAG staff so that EFRAG' draft comment letter can be published early January.

IFRS 11 Joint Arrangements

At its December 2013 meeting, EFRAG TEG discussed a number of issues relating to IFRS 11 submitted to IFRS Interpretation Committee. EFRAG TEG members decided that EFRAG should act pro-actively to help the IASB to clarify the issues as soon as possible.

EFRAG TEG members also discussed accounting for joint operations housed in a separate vehicle, an issue that the OIC had raised with the IASB. EFRAG TEG members believed that, given the differing nature and purpose of separate and consolidated financial statements, the IASB should consider the introduction of an exemption from IFRS 11 when accounting for joint operations in separate financial statements.