



September 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.

### September 2016 meetings

This edition of the EFRAG Update contains summaries of meetings and conference calls held in September 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 7 and 8 September

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The EFRAG Board met on 7 and 8 September and discussed the following:

- IFRS 16 *Leases*
- IASB Project *Insurance Contracts*
- IFRS Foundation *Trustees' Review of Strategy and Effectiveness*
- EFRAG Proactive Work on Goodwill and Impairment
- EFRAG Proactive Work on Transactions with Governments

#### IFRS 16 *Leases*

The EFRAG Board considered an early version of the forthcoming draft endorsement advice for public consultation. The EFRAG Board made a number of amendments to the draft and will discuss the document further at its October meeting.

The EFRAG Board tentatively decided to expose its preliminary views in October and, most likely, expose its final views for a short consultation period in 2017.

#### IASB Project *Insurance Contracts*

The EFRAG Board received a presentation on the structure of the insurance industry from Insurance Europe. No decisions were taken at the meeting.

### IFRS Foundation Trustees' Review of Strategy and Effectiveness

The EFRAG Board reviewed an analysis of the gap between EFRAG's comment letter and the outcomes of the IFRS Foundation Trustees' *Review of Structure and Effectiveness* and decided that no further action was required.

### EFRAG Proactive Work on Goodwill and Impairment

The EFRAG Board approved for the publication the quantitative analysis of goodwill and impairment.

### EFRAG Proactive Work on Transactions with Governments

The EFRAG Board agreed the direction of the EFRAG research project, using levies as an example and addressing the different treatment of income taxes and levies.

### EFRAG Board – written procedures

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No documents were approved using written procedures in September and none are expected in October.

### EFRAG TEG meeting on 15 September

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At its meeting on 15 September, EFRAG TEG discussed:

- IASB Publication *Classification and Measurement of Share-based Payment Transactions*
- IASB Research Project *Financial Instruments with Characteristics of Equity*
- IASB Outreach on IAS 26 and IFRS 13
- EFRAG Proactive work on Equity Instruments - Impairment and Recycling
- EFRAG Proactive work on Goodwill and Impairment
- EFRAG Proactive work on Transactions with Governments

### IASB Publication *Classification and Measurement of Share-based Payment Transactions*

EFRAG TEG considered an implementation issue raised by one constituent regarding the accounting for share-based payment transactions that are settled net of withholding tax obligations when an entity retains equity instruments in excess of the employee's tax obligations. EFRAG TEG agreed to amend the draft endorsement advice to acknowledge that the provision may increase costs for some preparers and to include a question to constituents on the matter.

The Draft Endorsement Advice will be considered by the EFRAG Board at its October meeting.

### IASB Research Project *Financial Instruments with Characteristics of Equity*

EFRAG TEG received an update on the progress of the IASB's research project *Financial Instruments with Characteristics of Equity* and provided preliminary views on the latest developments. EFRAG TEG discussed the issues that exist in practice with IAS 32, particularly when the standard is applied by financial institutions. Many EFRAG TEG members agreed that IAS 32 needed to be both clarified and improved to solve the issues that currently arise in practice. These members considered that it was difficult to see how the IASB was going to solve these issues under its research project.

No decisions were taken at the meeting.

### IASB Outreach on IAS 26 and IFRS 13

EFRAG TEG considered the papers to be discussed at the forthcoming IFASS meeting. EFRAG TEG decided that further research was required before determining whether or not to support a possible proposal by the IASB for the withdrawal of IAS 26 *Accounting and Reporting by Retirement Benefit Plans*. EFRAG TEG held a preliminary discussion about some of the issues that could be considered in the forthcoming IASB post-implementation review of IFRS 13 *Fair Value Measurement*.

No decisions were taken at the meeting.

### EFRAG Proactive work on Equity Instruments - Impairment and Recycling

EFRAG TEG discussed the proposed plan of EFRAG's proactive project related to impairment and recycling of investments in equity instruments. EFRAG TEG supported the general direction of the project, as drafted in the project plan.

No decisions were taken at the meeting.

### EFRAG Proactive work on Goodwill and Impairment

EFRAG TEG discussed some possible alternative approaches for accounting for goodwill after acquisition, to address some of the practical issues raised by constituents. EFRAG TEG supported further work on two of these alternative approaches and to field test them in some real-life scenarios.

No decisions were taken at the meeting.

### EFRAG Proactive work on Transactions with Governments

EFRAG TEG discussed the scope for the project and possible approaches using levies as a starting point. EFRAG TEG considered that the research should focus on 'forced transactions' as the underlying conceptual issues may not be limited to transactions with Governments. EFRAG TEG suggested exploring the circumstances in which it might be reasonable to infer that an entity incurring levies or similar taxes receives some form of benefits, and whether this could result in recognising the expense when the benefits are consumed.

No decisions were taken at the meeting.

## EFRAG CFSS and EFRAG TEG meeting on 14 September

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At its meeting on 14 September, EFRAG CFSS and EFRAG TEG discussed:

- IFRS 16 *Leases* (Education session)
- IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*

- IASB Project *Definition of a Business*
- IASB Research Project *Rate-Regulated activities*
- IFRS Foundation Exposure Draft *Proposed amendments to the IFRS Foundation Constitution*
- New Zealand External Reporting Board Publication *Information Needs of Users of New Zealand Capital Markets Entity Reports*

### IFRS 16 Leases (Education session)

EFRAG CFSS and EFRAG TEG were provided with an educational session on IFRS 16 *Leases* and discussed some implementation issues. The presentation was delivered by the staff of the IASB.

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

EFRAG CFSS and EFRAG TEG considered papers prepared for the September 2016 ASAF meeting on what the Conceptual Framework should state about the selection of a measurement basis. Among other papers, EFRAG CFSS and EFRAG TEG discussed proposals prepared by the IASB staff. Generally, EFRAG CFSS and EFRAG TEG members considered that the proposal of the IASB staff went in the right direction although they expressed concerns on some aspects of the proposals.

### IASB Project *Definition of a Business*

EFRAG CFSS and EFRAG TEG discussed the draft comment letter issued by EFRAG on the IASB's Exposure Draft ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests* and received an update on the FASB's proposed Accounting Standards Update *Business Combinations (Topic 805): Clarifying the Definition of a Business*.

EFRAG CFSS and EFRAG TEG generally supported the views expressed in the draft comment letter that the proposals are pragmatic and should help preparers by reducing the workload in distinguishing business combinations from asset acquisitions. Some EFRAG CFSS and EFRAG TEG members expressed concerns about whether the examples clearly illustrate the proposed requirements.

### IASB Research Project *Rate-Regulated activities*

EFRAG CFSS and EFRAG TEG discussed a draft Discussion Paper prepared for the September 2016 ASAF meeting by the Korean Accounting Standards Board (KASB) on the accounting for activities subject to defined rate regulation. EFRAG CFSS and EFRAG TEG members generally agreed that the regulatory framework would affect the timing, amount and uncertainty of revenue recognition of activities subject to defined rate regulation. EFRAG CFSS and EFRAG TEG members supported exploring the possibility of applying the principles of IFRS 15 *Revenue from Contracts with Customers* to account for these effects. However, some EFRAG CFSS and EFRAG TEG members did not see a need to change the existing IFRS 15 requirements. In addition, EFRAG CFSS and EFRAG TEG members considered that the KASB proposal relating to "indirect activities" needed further development.

EFRAG CFSS and EFRAG TEG also discussed the findings of a research paper of the Canadian Accounting Standards Board on the decision-usefulness of financial information that reflects the economics of rate-regulated activities. The discussion highlighted that the European experience in rate-regulated activities is quite diverse and therefore difficult to compare to the Canadian one.

### IFRS Foundation Exposure Draft *Proposed amendments to the IFRS Foundation Constitution*

EFRAG provided a platform for National Standard Setters to share and coordinate views on the Exposure Draft before responding to the consultation. The main concerns raised related to the composition of both the Trustees and the IASB Board and the size of the IASB Board. At European level, the European Commission will comment on the Exposure Draft.

### New Zealand External Reporting Board Publication *Information Needs of Users of New Zealand Capital Markets Entity Reports*

EFRAG CFSS and EFRAG TEG considered a study published by the New Zealand External Reporting Board on the information needs of users of New Zealand financial statements. Some EFRAG CFSS and EFRAG TEG members questioned the extent to which some of the results could be generalised. In addition, EFRAG CFSS and EFRAG TEG members noted that the study had found that some users thought that financial statements contained certain information that is not useful. EFRAG CFSS and EFRAG TEG members considered that it could be interesting to understand which items of information these users believed should be omitted from the financial statements.