



EFRAG UPDATE

JULY 2019

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 Comment Letter

On 27 July 2019, EFRAG published its final comment letter in response to the IFRS Foundation Exposure Draft *Proposed amendments to the IFRS Foundation Due Process Handbook*.

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

Draft Comment Letter

On 15 July 2019, EFRAG published its draft comment letter in response to the IASB Exposure Draft ED/2019/4 *Amendments to IFRS 17* and seeks constituents' views on the proposals. Comments are requested by 2 September 2019.

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

Feedback Statements

On 10 July 2019, EFRAG published a feedback statement on its discussion paper *Non-exchange Transfers: A role for societal benefit?*

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

On 12 July 2019, EFRAG published a feedback statement on the EFRAG secretariat working paper *FICE Early-Stage Analysis*.

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

European Lab Agenda Consultation

On 18 July 2019, the European Corporate Reporting Lab @EFRAG (European Lab) launched a public consultation on its future projects and their respective priority and importance for Europe. Responses are requested by 30 September 2019.

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



OPEN CONSULTATIONS

Title and description	Closing date
EFRAG draft comment letter on the IASB ED/2019/2 <i>Annual Improvements to IFRS Standards 2018-2020</i>	5 August 2019
EFRAG draft comment letter on IASB ED/2019/3 <i>Reference to the Conceptual Framework (Proposed amendments to IFRS 3)</i>	17 August 2019
EFRAG draft comment letter on the IASB ED/2019/4 <i>Amendments to IFRS 17</i>	2 September 2019
EFRAG hedge accounting questionnaire for insurers	16 September 2019
European Lab consultation on its future projects and their respective priority and importance for Europe	30 September 2019
EFRAG discussion paper <i>Accounting for Pension Plans with an Asset-Return Promise</i>	15 November 2019

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

EFRAG BOARD

Meeting

The EFRAG Board met on [9 July 2019](#) and discussed the following topic:

Amendments to IFRS 17 *Insurance Contracts*

The EFRAG Board approved the draft comment letter on IASB Exposure Draft ED/2019/4 *Amendments to IFRS 17* for comment by 2 September 2019.

IASB Project *Interest Rate Benchmark Reform*

In the light of the urgency of providing endorsement advice on the anticipated amendments to IFRS 9 and IAS 39, the EFRAG Board agreed, where necessary, to accelerate the endorsement process by approving the draft and final endorsement advices by written procedure and substantially shortening the comment period.

Next meeting

The EFRAG Board will next meet on [10 September 2019](#) by conference call.



July 2019 written procedures

The EFRAG Board approved the following document, using written procedures:

- EFRAG final comment letter on the IFRS Foundation Exposure Draft *Proposed amendments to the IFRS Foundation Due Process Handbook*.

Expected August 2019 written procedures

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

- EFRAG final comment letter on the IASB Exposure Draft ED/2019/2 *Annual Improvements to IFRS Standards 2018-2020 Cycle*.
- EFRAG draft comment letter on the IASB Exposure Draft *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*.

EFRAG TECHNICAL EXPERT GROUP (TEG)

Meeting

EFRAG TEG met on [3-4 July 2019](#) and discussed the following topics:

Amendments to IFRS 17 *Insurance Contracts*

EFRAG TEG discussed the draft comment letter relating to the IASB proposals on the Exposure Draft ED/2019/4 *Amendments to IFRS 17* and also relating to issues raised in EFRAG's September 2018 letter to the IASB that have not been addressed by the Exposure Draft.

In general, EFRAG TEG agreed with the overall positions in the draft comment letter prepared by the EFRAG Secretariat, but made suggestions to improve the wording including questions to constituents.

EFRAG TEG agreed to recommend the draft comment letter to the EFRAG Board.

IASB Research Project *Financial Instruments with Characteristics of Equity*

EFRAG TEG discussed a feedback statement on the EFRAG Secretariat Working Paper *FICE - Early-Stage Analysis*.

EFRAG TEG generally regarded the early-stage analysis as being a useful exercise that could be used for major projects. However, members considered that certain accounting changes (e.g. classification of financial instruments) lend themselves more readily to the analysis of impacts than others. Members agreed that there is no 'one size fits all' approach for this type of analysis as it needs to be appropriate for the issue under review. EFRAG TEG recommended starting with a cost-benefit analysis to determine whether to conduct an early-stage impact analysis including taking into account the analytical limitations at early stages of the due process.

No decisions were taken at the meeting.



EFRAG Research Project *Non-Exchange Transfers*

EFRAG TEG discussed and approved a feedback statement summarising the input received by EFRAG in response to its discussion paper. Members also agreed not to conduct further activities on this project.

EFRAG Research Project *Better Information on Intangible Assets*

EFRAG TEG discussed the scope of EFRAG research project *Better Information on Intangible Assets*. Members suggested not to limit the focus to items that would meet the definition of intangible assets in IAS 38 *Intangible Assets*. Instead the project should consider whether information about how an entity creates, maintains, expands and/or preserves value could be provided in a way useful for investing decisions. This would involve the presentation of the information in the financial statements, in the notes and in the management commentary. Members also noted the issues related to recognition of internally generated intangible assets.

No decisions were taken at the meeting.

Conference call

EFRAG TEG held a conference call on [23 July 2019](#) and discussed the following topic:

IFRS Foundation Exposure Draft *Proposed Amendments to the IFRS Foundation Due Process Handbook*

EFRAG TEG members discussed an analysis of the comment letters received in response to the draft comment letter on the IFRS Foundation ED *Proposed Amendments to the IFRS Foundation Due Process Handbook*.

EFRAG TEG agreed to recommend a final comment letter to the EFRAG Board for approval by written procedure.

Next meeting

EFRAG TEG will next meet on [13 August 2019](#).

EFRAG CFSS AND EFRAG TEG

Meeting

EFRAG TEG and EFRAG Consultative Forum of Standard Setters (EFRAG CFSS) met on [3 July 2019](#) and discussed the following topics:

Amendments to IFRS 17 *Insurance Contracts*

EFRAG CFSS and EFRAG TEG received a presentation from an IASB member providing an overview of IASB Exposure Draft ED/2019/4 *Amendments to IFRS 17*.

The presentation focused on the objectives of the proposed amendments, the criteria for making an amendment and the twelve targeted amendments across eight different areas. The presentation also set out the next steps the IASB would take in finalising the amendments.



IASB Project *Primary Financial Statements*

EFRAG TEG and EFRAG CFSS members discussed possible approaches to structure the upcoming IASB Exposure Draft on *Primary Financial Statements*. Members expressed mixed views as to whether the IASB proposals should lead to an amendment to IAS 1 *Presentation of Financial Statements*, replacement of IAS 1 with a new standard or an amendment to IAS 1 to remove the requirements related to disaggregation, structure and content of the primary financial statements and include the new requirements in a new standard. Members broadly agreed that the approach taken should consider the timing of completing the project as a priority.

EFRAG TEG and EFRAG CFSS members suggested that the IASB should focus its outreach activities on management performance measures, disaggregation of operating expenses by function and by nature, the impact of proposals on the statement of cash flows and the level of aggregation and disaggregation in the financial statements. Finally, members generally agreed that it would be useful to undertake field tests during the IASB's consultation period.

IASB Project *Interest Rate Benchmark Reform - Phase II*

EFRAG TEG and EFRAG CFSS members discussed the potential topics to be addressed during phase II of the project. They raised concerns about practical aspects of hedge accounting during the different stages of the IBOR transition and stated that financial markets were seeking clear guidance on the accounting consequences of the transition. Members suggested that the current accounting requirements might not be sufficient to deal with a change and that supplementary educational material would be useful.

IASB Project *Management Commentary*

EFRAG TEG and EFRAG CFSS members discussed the proposed guidance on the principle of 'narrative coherence' and on 'matters that could affect the entity's long-term success'. Members highlighted the importance of the project and broadly expressed support for the initiative and its potential to contribute to guidance at an international level.

However, some members considered that the emphasis on narrative coherence as a principle guiding the content of the management commentary was confusing. Other members considered that narrative coherence was more about consistency between and across reports, including management commentary and financial statements.

Some members also noted that a reference to the concept of 'value creation' rather than net future cash inflows, would provide a better anchor for the content of the management commentary. Lastly, some members encouraged the IASB to use clearer, more concise and actionable language to take account of the broader audience for the management commentary information.

IASB Research Project *Business Combination under Common Control*

EFRAG TEG and EFRAG CFSS discussed when and how to apply a current value and predecessor approaches to business combinations under common control (BCUCC). There was some support for the proposal that transactions affecting non-controlling shareholders (NCS) of a public acquiring entity should apply a current value approach and transactions affecting the NCS of a privately held acquiring entity could apply a predecessor method unless NCS require current value information. However, it was noted that it would be costly for lenders to analyse the different treatments depending on whether or not there are NCS in the acquiring entity. Members also noted that the requirements were not principles based.



EFRAG TEG and EFRAG CFSS members commented that in most jurisdictions there were particular requirements to ensure that a BCUCC would take place at a fair value. Those requirements were incorporated in laws, tax regulations or supervisory regimes, however, there was no prescriptive guidance for accounting purposes. Accordingly, it might be useful to only require the distribution and contribution aspects to be considered when a BCUCC did not take place at arm's length.

Members also discussed, whether comparative figures should be restated when applying a predecessor approach. It was highlighted that users found comparative figures extremely useful. However, members noted that it could not be done in a sufficiently reliable manner in all cases. In addition, the figures would be proforma and it might be better to present them outside the primary financial statements.

EFRAG Research Project *Accounting for Pension Plans with an Asset-return Promise*

EFRAG CFSS and EFRAG TEG received a presentation on EFRAG's Discussion Paper *Accounting for Pension Plans with an Asset-return Promise*. The Discussion Paper provided the following alternatives to account for pension plans promising the higher of a guaranteed return on plan assets and the actual return on plan assets: a capped asset return approach, a fair-value-based approach and a fulfilment value approach. The initial view of some members was that the fulfilment value approach might be the best option. It was also noted that the requirement in IAS 19 *Employee Benefit* to attribute benefit on a straight-line basis if an employee's service in later years will lead to a materially higher level of benefit than in earlier years was the cause of some of the issues arising from applying IAS 19 on the types of plans considered in the Discussion Paper.

UK FRC Research *The Business Reporting of Intangibles: Realistic Proposals*

EFRAG CFSS and EFRAG TEG received a presentation on the feedback received by the UK FRC in response to its discussion paper. Members acknowledged the importance of the topic and welcomed the research. They noted that there were many current initiatives on intangibles including in non-financial reporting and this had the potential to create confusion.

Some members noted the importance of first understanding how information on intangibles was used. Members expressed mixed views about the need to revise IAS 38 *Intangibles* or address reporting about intangibles more broadly.

UK FRC Research *Variable and Contingent Consideration*

EFRAG CFSS and EFRAG TEG received a presentation on variable and contingent consideration prepared by the UK FRC.

The presentation focused on how the buyer should account for variable and contingent consideration, but it was noted that it would also be interesting to consider what the seller had given up.

Members discussed whether changes in estimated variable and contingent consideration after initial recognition of a purchased asset should be reflected in the cost of that asset. Different views were presented.

Next meeting

EFRAG CFSS-TEG will next meet [25 September 2019](#).



EUROPEAN LAB

European Lab Steering Group

On 18 July 2019 the European Lab Steering Group launched a public consultation on future projects of the European Lab. The public consultation proposes future project topics and seeks views on their prioritisation. It also seeks input from respondents on any possible alternative project that in the respondents' view would be more important and urgent for the European Lab to undertake than the projects proposed. Responses are requested by 30 September 2019.

Project Task Force on Climate-related Reporting

The Project Task Force on Climate-related Reporting (PTF-CRR) continued reviewing information reported by companies with a view to identify good reporting practices and started planning the format and timing of outreach events on preliminary findings.

On 19 July 2019, an invitation was extended to stakeholders with experience and insights in either reporting or using climate-related information, requesting expressions of interest to participate in dialogue with the PTF-CRR for the purposes of the ongoing project. For more details, please see the [EFRAG website](#).

Next meetings

The next plenary meeting of the Project Task Force on Climate-related Reporting is scheduled for 20 September 2019. The European Lab Steering Group will meet again on 15 October 2019 to consider the progress of the project on climate-related reporting and the outcome of the public consultation on future projects of the European Lab.