

February 2013

Summary of EFRAG Technical Expert Group meeting February 2013

EFRAG TEG held a conference call on 29 January 2013 to discuss EFRAG comment letters on:

- IASB Exposure Draft *Acquisition of an Interest in a Joint Operation (Proposed amendment to IFRS 11)*
- IASB Exposure Draft *Recoverable Amount Disclosures for Non-Financial Assets (Proposed Amendments to IAS 36)*
- IASB Exposure Draft *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed amendments to IFRS 10 and IAS 28)*

EFRAG TEG held a conference call on 12 February 2013. The following topics were discussed:

- IASB Exposure Draft *Annual Improvements to IFRSs 2011-2013 Cycle*
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

From 27 February to 1 March 2013 EFRAG TEG held its monthly meeting. The following topics were discussed:

- IASB Project *Revenue Recognition*
- EFRAG Proactive Project *Capital Providers' Use of Financial Statements*
- IASB Project *The Conceptual Framework*
- EFRAG Proactive Project *The Role of the Business Model in Financial Statements*
- Work of the IFRS Interpretations Committee
- IASB Project *Insurance Contracts*
- IASB Project *Bearer Biological Assets*
- IASB Project *Rate-regulated Assets*
- IASB Project *Leases*
- IASB Exposure Draft *Classification and Measurement: Limited Amendments to IFRS 9*
- IASB Review Draft *IFRS 9 Chapter 6: Hedge Accounting*
- IASB Project *Financial Instruments: Accounting for macro hedging*
- IASB Project *Amortised Cost and Impairment of Financial Assets*
- IASB Exposure Draft *Novation of Derivatives and Continuation of hedge accounting*

Highlights

Comment Letters

On 29 January 2013 EFRAG issued its draft comment letter on the IASB Exposure Draft *Acquisition of an Interest in a Joint Operation (Proposed amendment to IFRS 11)*. See page 2 for details. Comments are requested by 20 March 2013.

On 29 January 2013 EFRAG issued its draft comment letter on the IASB Exposure Draft *Recoverable Amount Disclosures for Non-Financial Assets (Proposed Amendments to IAS 36)*. See page 2 for details. Comments are requested by 11 March 2013.

On 30 January 2013 EFRAG issued its draft comment letter on the IASB Exposure Draft *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed amendments to IFRS 10 and IAS 28)*. See page 3 for details. Comments are requested by 20 March 2013.

On 19 February 2012 EFRAG published its final comment letter on the IASB Exposure Draft *Annual Improvements to IFRSs 2011-2013 Cycle*. See page 3 for details.

Endorsement Advice

On 18 February 2013 EFRAG issued its final endorsement advice and effects study report on *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*. EFRAG supported the Amendments and has concluded that they meet the technical criteria for endorsement as part of IFRS in the EU and EEA. See page 3 for details.

IASB Exposure Draft *Acquisition of an Interest in a Joint Operation (Proposed amendment to IFRS 11)*

In a conference call on 29 January 2013, EFRAG TEG approved a draft comment letter in response to the Exposure Draft. In its draft comment letter, EFRAG agreed that diversity in practice exists on how joint operators account for the acquisition of an interest in a jointly controlled operation, particularly when the activity of the jointly controlled operation under IAS 31 *Interests in Joint Ventures* constitutes a business as defined in IFRS 3 *Business Combinations*. EFRAG noted that this diversity in practice is likely to continue given that IFRS 11 *Joint Arrangements* does not address accounting for the acquisition of a joint operation. EFRAG therefore supported the IASB's efforts to address the issue.

However, EFRAG was concerned that considerable judgment is required in practice to distinguish a joint operation from a joint venture. Requiring the application of the principles on business combinations accounting would put considerable stress on how the definition of a 'joint operation' and a 'business' is understood by preparers and auditors. In addition, EFRAG was concerned that the Exposure Draft did not address a number of related issues and left open a number of cross-cutting issues.

The draft comment letter was issued on 29 January 2013. Comments are invited on the draft comment letter by 20 March 2013.

IASB Exposure Draft *Recoverable Amount Disclosures for Non-Financial Assets (Proposed Amendments to IAS 36)*

In a conference call on 29 January 2013, EFRAG TEG discussed and approved its draft comment letter to the IASB on the Exposure Draft, seeking feedback from constituents.

The Exposure Draft proposed to amend the disclosure requirements in IAS 36 *Impairment of Assets* with regard to the measurement of the recoverable amount of impaired assets that were made as a consequence of issuing IFRS 13 *Fair Value Measurement* in May 2011.

The IASB acknowledged that some of the amendments made to IAS 36 had the effect of applying requirements more broadly than the IASB intended. In particular, instead of requiring the disclosure of the recoverable amount of an asset (including goodwill) or a cash generating unit with material impairment losses or impairment reversals during the period, one of the amendments made to IAS 36 required an entity to disclose the recoverable amount of each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite

useful lives allocated to that unit is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives.

In its draft comment letter, EFRAG tentatively agreed with the proposal as it removes burdensome disclosures without reducing the relevance and understandability of the financial information.

The draft comment letter was issued on 29 January 2013. Comments are invited on the draft comment letter by 11 March 2013.

IASB Exposure Draft *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed amendments to IFRS 10 and IAS 28)*

In a conference call on 29 January 2013, EFRAG TEG approved EFRAG's draft comment letter on the Exposure Draft, which intends to address an acknowledged inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures (2011)*, in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or a joint venture. In the draft comment letter, EFRAG agreed that there was inconsistency between IAS 28 and IFRS 10, but expressed concern that the Exposure Draft would require an entity to determine whether an asset being sold or contributed meets the definition of a business under IFRS 3 *Business Combinations* and would raise further issues within IFRS 10 and IAS 28.

IASB Exposure Draft *Annual Improvements to IFRSs 2011-2013 Cycle*

In a conference call on 12 February 2013, EFRAG TEG approved EFRAG's final comment letter on the Exposure Draft.

Although EFRAG agreed with most proposals in the Exposure Draft, it was concerned about two issues.

On the proposed amendment to IAS 40 *Investment Properties*, EFRAG believed that while the amendment to IAS 40 provided a short-term solution, it did not address the broader issues that had surfaced, such as whether a single investment property is a business and the need for similar amendments to other standards (for example IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*). Those issues should be considered as part of the post-implementation review of IFRS 3.

EFRAG's draft comment letter stated that the amendment to the basis for conclusions in IFRS 1 was unnecessary. Following feedback from constituents the final comment letter supported the proposed amendment. EFRAG nevertheless believed that in the future, similar minor issues should not result in amendments to a standard or its basis for conclusions. Additionally, EFRAG retained its initial view that the IASB should refrain from making amendments to the basis for conclusions of a standard instead of improving the text within the standards. The bases for conclusions do not constitute part of a standard and therefore are not part of IFRS as endorsed in the European Union.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

EFRAG TEG approved EFRAG's final Endorsement Advice Letter and Effects Study Report relating to the endorsement of the amendments to IFRS 10, IFRS 12 and IAS 27 for use in the European Union and European Economic Area. In the letter, EFRAG supported the Amendments and has concluded that they meet the technical requirements for endorsement. EFRAG has also concluded that the benefits to be derived from implementing the Amendments are likely to outweigh the costs involved.

IASB Project *Revenue Recognition*

At the February 2013 meeting, EFRAG TEG members received an update on the latest tentative decisions of the IASB. It was noted that the board's decisions addressed some of EFRAG's concerns related to the 2011 ED, namely on disclosure requirements and effective date. However, the tentative decisions would not necessarily resolve all EFRAG's concerns. For example, the tentative decisions did not include the provision of additional guidance to help distinguishing between a "sale with a right of return", a "customer acceptance clause" and "repurchase agreement".

In this meeting EFRAG TEG members also discussed the possibility of following up on the field-test and workshops organised on the basis of the 2011 Exposure Draft, to assess the understandability of the pre-final requirements, especially on when a performance obligation is satisfied over time and how to identify separate performance obligations. EFRAG TEG members requested the EFRAG staff to liaise with the IASB to see how this could be organised as the IASB has made clear at the IFRS Advisory Council that they will not make a Review Draft of the final standard available for public scrutiny.

EFRAG Proactive Project *Capital Providers' Use of Financial Statements*

At its February meeting EFRAG TEG discussed the academic literature review that EFRAG and the Institute of Chartered Accountants of Scotland have sponsored. EFRAG decided to publish the review when it is finalised and to prepare a bulletin considering the issues arising from the review that could be relevant in relation to the IASB project on the Conceptual Framework.

IASB Project *The Conceptual Framework*

At its February meeting, EFRAG TEG approved bulletins on uncertainty and reliability/faithful representation. Before being issued, the bulletins are also to be approved by the Italian OIC, the French ANC, the UK's FRC and the German ASCG. The conceptual framework bulletins are issued by EFRAG and its partners to stimulate debate among European stakeholders beyond National Standard Setters. The bulletins illustrate and discuss the issues that EFRAG and its partners believe should be considered as part of the revision of the IFRS Conceptual Framework. Comments received will inform EFRAG and its partners' thinking and contributions to the IASB.

EFRAG Proactive Project *The Role of the Business Model in Financial Statements*

EFRAG TEG discussed a complete working draft of a discussion paper..

EFRAG TEG discussions focused on the final chapter of the paper, including the preliminary view and the alternatives addressing how the business model notion could be used in IFRSs. EFRAG TEG also considered how the paper might further differentiate management intent from the business model notion and how to deal with segment reporting in the paper.

Work of the IFRS Interpretations Committee

EFRAG TEG held a number of sessions on the work of the IFRS Interpretations Committee ('the IFRS IC'), its current agenda and a number of cross-cutting issues. During an educational session IFRS IC Chairman Wayne Upton and IASB Director of Implementation Activities Michael Stewart gave a presentation on the IFRS IC's role, responsibilities and its current work programme. In particular, they discussed the IFRS IC's discussion on two current technical issues: the discount rate for employee benefit liabilities recognised under IAS 19 *Employee Benefits* and the Draft Interpretation *Put Options Written on Non-controlling Interests*.

EFRAG TEG held a discussion on EFRAG's role in relation to the IFRS IC, noting that it had been practice to not respond to agenda decisions unless constituents raised specific concerns, but that the EFRAG staff monitors the agenda of the IFRS IC. EFRAG TEG members noted that they felt it would be helpful if issues that appear on the agenda of the IFRS IC and have the potential to result in standard setting activities or are of specific concern to constituents were brought to their attention, potentially by way of educational sessions.

A session was also held to discuss a number of cross-cutting issues that have arisen at the IFRS IC and identified in preparing EFRAG's draft comment letters on recent Exposure Drafts. These cross-cutting issues included the acquisition of assets versus acquisition of investees, the nature of investees and accounting for investees in separate financial statements. EFRAG TEG discussed the complex dependencies between those IFRSs and a number of perceived inconsistencies, including the significant differences between the accounting models applied in the acquisition of an asset and a business and the issues arising from the definition of the latter notion under IFRS literature. EFRAG TEG tentatively decided that a request for clarification to the IFRS IC be developed whereby a number of areas in financial reporting will be highlighted, based on EFRAG TEG's discussions, so that the IFRS IC could consider them in providing guidance to stakeholders on how to apply the existing principles in IFRS literature.

An educational session discussed two issues recently discussed at the IFRS IC (disclosures on going concern and variable payments for acquisition of property, plant and equipment) and the tentative decisions of the IFRS IC on the Draft Interpretation *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*. No decisions were taken during this session.

IASB Project Insurance Contracts

EFRAG TEG members were provided with an educational session on the IASB's tentative decisions on participating contracts. No decisions were taken during this session.

IASB Project Bearer Biological Assets

EFRAG TEG held an educational session on accounting for bearer biological assets under IAS 41 *Agriculture*. EFRAG TEG members had an initial discussion on the key issues, including the scope of the project and the proposed accounting model.

EFRAG TEG members discussed and raised concerns relating to the IASB's tentative decision on the scope of the project. Some EFRAG TEG members suggested that this project should cover not only biological assets that are plants and carry the bearer attribute, but should be extended to other biological assets such as livestock when they have the same bearer function.

EFRAG TEG members generally agreed that the accounting model for bearer biological assets should be changed to the IAS 16 model.

IASB Project Rate-regulated Assets

At the February 2013 meeting EFRAG TEG held an educational session on the IASB's tentative decisions on the interim standard on rate-regulated activities. EFRAG TEG members did not reach any conclusion on the proposals.

EFRAG TEG members decided to set up an EFRAG working group on rate-regulated activities in order to obtain input and insights from professionals with in-depth knowledge about rate-regulation, to assist EFRAG's work related to the IASB longer term project on Rate-regulated activities.

IASB Project *Leases*

EFRAG TEG held a session on progress on the IASB project *Leases* including a discussion on the IASB's tentative decisions relating to the definition of a lease. The EFRAG staff provided EFRAG TEG with an analysis paper on potential alternative criteria to identify and therefore recognise a lease. During the discussion EFRAG TEG members expressed different views on the fundamental recognition issue of lease agreements.

EFRAG further discussed other issues related to the expected guidance on lease accounting. In particular, the EFRAG staff presented two numerical examples on application of the new receivable-and-residual model in lessors' accounts, and updated EFRAG TEG on the possibility of using the underlying asset's value as collateral when testing lease assets for impairment. EFRAG discussed and raised concerns about the threshold criteria to recognise a substantive change in an agreement. EFRAG raised no concerns in relation to presentation and disclosure issues.

IASB Exposure Draft *Classification and Measurement: Limited Amendments to IFRS 9*

At its February meeting, as part of the process of preparing EFRAG's final comment letter on the Exposure Draft, EFRAG TEG discussed the feedback received at the joint meeting of EFRAG's Insurance Accounting Working Group and Financial Instruments Working Group on the introduction of a third business model in IFRS 9 *Financial Instruments* and other related topics. EFRAG TEG members were also provided with a summary of the outcome arising from other on-going meetings, such as the outreach events organised by European National Standard Setters on the topic. No decisions were taken at the meeting.

IASB Review Draft *IFRS 9 Chapter 6: Hedge Accounting*

EFRAG TEG discussed a draft final comment letter in response to the IASB Review Draft on Hedge Accounting following EFRAG's consultation on the transition from IAS 39 to IFRS 9 for macro-hedging practices. The letter is expected to be finalised in the EFRAG TEG conference call scheduled for 12 March 2013.

IASB Project *Financial Instruments: Accounting for macro hedging*

A GDF Suez team made a presentation of its current portfolio management practices as part of an education session for TEG regarding the macro hedge project encompassing also other risks than the interest rate risk.

IASB Project *Amortised Cost and Impairment of Financial Assets*

At its February meeting, EFRAG TEG members continued discussing future outreach activities to be held following the IASB's publication of the forthcoming Exposure Draft. No decisions were taken at the meeting.

IASB Exposure Draft *Novation of Derivatives and Continuation of hedge accounting: Proposed Amendments to IAS 39 and IFRS 9*

EFRAG TEG discussed an initial draft comment letter in response to the Exposure Draft. No decisions were taken at the meeting.