



December 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.

December Publications

Final Endorsement Advice

On 14 December, EFRAG issued its final endorsement advice on the IASB's Publication *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*.

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

Letter to the IASB

On 21 December, EFRAG sent a letter to the IASB asking for the Conceptual Framework to provide some direction as to the circumstances in which asymmetry may and may not play a part.

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

December meetings

This edition of the EFRAG Update contains summaries of meetings and conference calls held in December by:

- The EFRAG Board; and
- The EFRAG Technical Expert Group (EFRAG TEG)

Detailed meeting reports

EFRAG Board meeting on 13 December

The EFRAG Board met on 13 December and discussed the following:

- IASB Publication *Clarifications of classification and measurement of share based payment transactions (Amendments to IFRS 2)*
- IASB Research Project *Dynamic Risk Management*
- IASB Exposure Draft *ED/2015/3 Conceptual Framework for Financial Reporting*
- EFRAG Research Projects
- EFRAG Work plan

IASB Publication Clarifications of classification and measurement of share based payment transactions (Amendments to IFRS 2)

The EFRAG Board approved the final endorsement advice on *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)* for forwarding to the European Commission.

IASB Research Project Dynamic Risk Management

The EFRAG Board approved the paper reflecting the results of the outreach on dynamic risk management in a sample of banks for public consultation.

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

The EFRAG Board noted the tentative decisions taken by the IASB in its October meeting on the treatment of asymmetry in the revised *Conceptual Framework*. The EFRAG Board decided to write to the IASB to call for additional direction on the role of asymmetry in recognition and measurement decisions to be included in the revised Framework.

EFRAG Research Projects

The EFRAG Board received an update on the current EFRAG research activities. The EFRAG Board decided to consider the accounting for goodwill at a future meeting.

EFRAG Technical Work plan

The EFRAG Board approved the technical work plan.

EFRAG Board – expected January 2017 written procedures

During January 2017, the EFRAG Board is expected to approve the following documents using written procedures:

- IFRIC Interpretation 22 *Foreign Currency Translation and Advance Consideration*;
- IASB Publication *Transfers of Investment Property (Amendments to IAS 40)*; and
- IASB Publication *Annual Improvements 2014-2016 Cycle*.

EFRAG TEG meeting on 19-20 December

At its meeting on 19-20 December, EFRAG TEG discussed:

- IFRS 16 *Leases*
- IASB Publication *Annual Improvements to IFRS Standards 2014-2016 Cycle*
- IASB Publication *Transfers of Investment Property (Amendments to IAS 40)*
- IFRIC Interpretation 22 *Foreign Currency Translation and Advance Consideration*
- IASB Project *Insurance Contracts*
- IASB Project *Annual Improvements to IFRS Standards 2015-2017 Cycle*
- EFRAG Proactive work on Goodwill and Impairment
- EFRAG Proactive work on Pensions
- EFRAG Proactive work on Transactions Other Than Exchanges of Equal Value

IFRS 16 *Leases*

EFRAG TEG considered the feedback received from constituents on the Preliminary Consultation Document and the User Questionnaire and decided to include the following concerns raised by constituents in its forthcoming draft endorsement advice to the EFRAG Board:

- The timeliness of the endorsement process, in particular for entities wishing to early adopt IFRS 16;
- The effects of IFRS 16 on the regulatory capital requirements of financial institutions;
- The costs for lessors arising from the expected need to provide more information to lessees.

EFRAG TEG also recommended that the forthcoming draft endorsement advice should:

- Further explain why the concepts of right-of-use and of control, as defined in IFRS 16, are appropriate in the case of leases; and
- Expand the discussion on the complexity and level of judgement created by some requirements in IFRS 16, such as the existence of substitution rights and the assessment of the lease terms in the presence of renewal and termination options.

EFRAG TEG also considered the additional work conducted by the EFRAG Secretariat during the consultation period on the assessment on whether IFRS 16 will be proportionate for SMEs.

IASB Publication *Annual Improvements to IFRS Standards 2014-2016 Cycle*

EFRAG TEG unanimously agreed to recommend to the EFRAG Board, subject to minor drafting improvements, a Draft Endorsement Advice and Invitation to Comment supporting the endorsement of the Annual Improvements.

IASB Publication *Transfers of Investment Property (Amendments to IAS 40)*

EFRAG TEG unanimously agreed to recommend to the EFRAG Board, subject to minor drafting improvements, a Draft Endorsement Advice and Invitation to Comment supporting the endorsement of the Amendments.

IFRIC Interpretation 22 *Foreign Currency Translation and Advance Consideration*

EFRAG TEG unanimously agreed to recommend to the EFRAG Board, subject to minor drafting improvements, a Draft Endorsement Advice and Invitation to Comment supporting the endorsement of the IFRIC Interpretation.

IASB Project *Insurance Contracts*

EFRAG TEG was provided with a briefing from the European insurance companies that participated in the IASB's field-testing of the forthcoming Standard on *Insurance Contracts*. The presentation incorporated the November 2016 IASB' tentative decisions.

No decisions were taken at the meeting.

IASB Project *Annual Improvements to IFRS Standards 2015-2017 Cycle*

EFRAG TEG discussed the narrow-scope amendments that are expected to be included in the IASB's Exposure Draft *Annual Improvements to IFRS Standards 2015-2017 Cycle*.

EFRAG TEG supported the way that the IASB is expected to address the issue related to IAS 23 *Borrowing Costs*.

Most EFRAG TEG members broadly supported the way that the IASB is expected to address the issues related to IAS 28 *Investments in Associates and Joint Ventures*. Some of those EFRAG TEG members considered that further clarification on the application of the expected approach, perhaps in the form of an illustrative example, would be helpful. Other EFRAG TEG members commented that the expected approach is not the best way to address the issue and would prefer to exclude long-term interests from the scope of IFRS 9's expected loss requirements (such that impairment of such interests would be addressed solely by IAS 28).

Regarding the expected narrow-scope amendment to IAS 12 *Income Taxes*, EFRAG TEG raised concerns about the IASB pursuing this narrow-scope amendment without providing some guidance on the real issue, i.e. how to determine whether payments on financial instruments with characteristics of equity that are classified as equity are dividends or not.

No decisions were taken at the meeting

EFRAG Proactive work on Goodwill and Impairment

EFRAG TEG continued the discussion that started at the September meeting on two possible alternative approaches for accounting for goodwill after acquisition. Some members considered that the approaches may provide a possible solution to some of the concerns expressed on the current requirements. Other members noted that the proposals may add complexity and the noted the need to provide a sound conceptual basis for any proposed change.

EFRAG TEG further reiterated that any solution should only be investigated to assess if it provides relevant information from an investor's perspective.

No decisions were taken at the meeting

EFRAG Proactive work on Pensions

EFRAG TEG further considered the scope of its proactive project on pension plans and considered that the research should be focused on defined benefit plans where the promised benefit is linked at least in part to the return on specified assets. For such types of plans, it is argued that the existing requirements create an accounting mismatch because the projection of returns and the discounting of those returns when calculating the defined benefit obligation may not reflect the link between the promised benefit and the return on the assets.

The objective of the project would be to investigate possible ways to better reflect the economic link. EFRAG TEG encouraged the EFRAG Secretariat to identify real life plans with these characteristics to test any proposals.

No decisions were taken at the meeting.

EFRAG Proactive work on Transactions other than Exchanges of Equal Value

EFRAG TEG considered a paper exploring whether the characteristics of certain transactions that do not involve an exchange of equal value may justify a different accounting approach and considered some examples of the application of a possible approach. EFRAG TEG generally agreed with the broad direction of the paper and suggested the following improvements for future development of the research:

- To better articulate how the characteristics of the transactions in the scope of the project justify a different approach and in the 'causal links' that may exist between a payment made and an underlying transaction;
- To better articulate the situations in which existing requirements may not lead to inappropriate or sub-optimal recognition or measurement outcomes; and
- To consider whether the possible approach could be useful in accounting for a wider range arrangements than levies, in particular for income-generating transactions such as government grants.

No decisions were taken at the meeting.