

June 2012

## Summary of EFRAG meetings held in June 2012

On 6 June 2012, EFRAG held a meeting by public conference call to discuss:

- IASB Project *Annual Improvements to IFRSs* (2010 - 2012 Cycle)
- IFRS Interpretations Committee *Rejection Notice on Greek Government Bonds*
- *Government Loans* (Amendments to IFRS 1)

From 20 to 22 June 2012, EFRAG held its monthly meeting. The first day of the meeting was held together with the European national standard setters in EFRAG's Consultative Forum of Standard Setters (EFRAG CFSS). The following topics were discussed during the monthly meeting:

- IASB Exposure Draft *Transition Guidance* (proposed amendments to IFRS 10)
- IASB Exposure Draft *Revenue from Contracts with Customers*
- Trustees of the IFRS Foundation Project *Review of the IASB Due Process Handbook*
- IASB Project *Financial Instruments*
- IASB Project *Comprehensive Review of IFRS for SMEs* (2012 - 2014 Cycle)
- IASB Project *Post-implementation Reviews*
- IFRS Interpretations Committee Project *Put options written on non-controlling interests*
- IASB Project *Insurance Contracts*
- IASB Project *Annual Improvements to IFRSs* (2009 - 2011 Cycle)
- IFRS Interpretation Committee Project *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*
- EFRAG Proactive Project *Separate Financial Statements*
- EFRAG Proactive Project *Disclosure Framework for the Notes to the Financial Statements*

## Highlights

### **Endorsement Advices**

#### *Government Loans* (Amendments to IFRS 1)

EFRAG finalised its Endorsement Advice to the European Commission and the Effects Study Report on *Government Loans* (Amendments to IFRS 1) for use in the European Union and the European Economic Area (page 3). EFRAG supports the adoption of the Amendments to IFRS 1 and recommends their endorsement.

#### IASB Project *Annual Improvements to IFRSs* (2009 - 2011 Cycle)

EFRAG also prepared its draft endorsement on the IASB's *Annual Improvements to IFRSs* (2009 - 2011 Cycle) for use in the European Union and European Economic Area.

The comment deadline is 25 July 2012.

*EFRAG Update* is published for the convenience of EFRAG's constituents. All conclusions reported are tentative and may be changed or modified at future meetings.

**Comment letters****IASB Project *Annual Improvements to IFRSs* (2010 - 2012 Cycle)**

EFRAG finalised its draft comment letter to the International Accounting Standard Board on the Exposure Draft *Annual Improvements to IFRSs* (2010 - 2012 Cycle) (page 2).

EFRAG agrees with most of the proposals in the ED and with their objective but EFRAG is concerned about the amendments to IFRS 3 *Business Combinations* and IAS 12 *Income Taxes*.

The comment deadline is 22 August 2012.

**IFRS Interpretations Committee *Rejection Notice on Greek Government Bonds***

EFRAG also discussed and approved its draft comment letter to the IFRS Interpretations Committee (the Interpretations Committee) (page 2) on the Interpretations Committee *Rejection Notice on Greek Government Bonds*.

EFRAG supports the Interpretations Committee's tentative decision not to add the issue to its agenda. However, EFRAG believes that it would be helpful if the standards explicitly dealt with debt restructurings more generally, which would be particularly relevant in the light of the current financial crisis.

The comment deadline is 12 July 2012.

**IASB Project *Annual Improvements to IFRSs* (2010 - 2012 Cycle)**

At the meeting on 6 June 2012, EFRAG discussed and approved its draft comment letter to the IASB on the Exposure Draft *Annual Improvements to IFRSs* (2010 - 2012 Cycle) that was issued in May 2012.

EFRAG agrees with most of the proposals in the ED and with their objectives. However, EFRAG is concerned about the amendments to:

- IFRS 3: EFRAG believes that the IASB should always propose consequential amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and reiterates its request to amend IAS 39 to consider the accounting for own credit risk on financial liabilities measured at fair value in IFRS 9 *Financial Instruments*; and
- IAS 12: EFRAG appreciates the IASB's responsiveness to this practice issue, but has concerns about the wider implications of the proposed amendments in other circumstances. Accordingly, EFRAG asks whether constituents are aware of any unintended consequences that the application of this amendment might have.

Comments are invited on the draft comment letter by 22 August 2012.

**IFRS Interpretations Committee *Rejection Notice on Greek Government Bonds***

At the meeting on 6 June 2012, EFRAG discussed and approved its draft comment letter to the Interpretations Committee for its rejection notice on Greek Government Bonds.

In its draft comment letter, EFRAG agreed with the Interpretations Committee's conclusion that the old Greek government bonds should be derecognised in their entirety (since their terms and conditions are substantially different compared to those of the new Greek government bonds). EFRAG therefore supported the Interpretations Committee's tentative decision not to add the issue to its agenda.

However, EFRAG believed that it would be helpful if the standards explicitly dealt with debt restructurings more generally, which would be particularly relevant in the light of the current financial crisis. Therefore, EFRAG suggested that the Interpretations Committee recommend to the IASB that accounting for debt restructurings and modifications be addressed as part of the finalisation of IFRS 9 *Financial Instruments*.

Comments are invited on the draft comment letter by 12 July 2012.

## **Government Loans (Amendments to IFRS 1)**

EFRAG considered the comments received in response to its Invitation to Comment on the *Government Loans* (Amendments to IFRS 1).

Amendments to IFRS 1 deal with loans received from governments at a below market rate of interest and their objective is to give first-time adopters of IFRSs relief from full retrospective application on transition to IFRSs. This relief is the same as the one that was given to existing preparers of IFRS financial statements in 2008 when IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* was amended.

EFRAG finalised and approved its final endorsement advice and effects study report, taking into account the comments received on its Invitation to Comment. EFRAG assessed the Amendments to IFRS 1 against the technical criteria for endorsement in the EU and concluded that they meet those criteria. EFRAG has also concluded that the benefits of the Amendments to IFRS 1 outweigh the costs.

Accordingly, EFRAG has published its Endorsement Advice Letter and Effects Study Report relating to the endorsement of the Amendments to IFRS 1 on its website.

## **IASB Exposure Draft *Transition Guidance* (proposed amendments to IFRS 10)**

During its June 2012 meeting, EFRAG TEG members discussed an initial draft of an Invitation to Comment on Draft Endorsement Advice of the Transitional Guidance: Proposed amendments to IFRS 10.

EFRAG did not take any decisions during this session.

## **IASB Exposure Draft *Revenue from Contracts with Customers***

At its June 2012 meeting, EFRAG staff presented a revised version of the draft feedback statement which was approved subject to agreed redrafting, as it was considered that some of the focused issues needed further clarification.

The feedback statement is intended to be released by the end of June 2012.

## Trustees of the IFRS Foundation Project *Review of the IASB Due Process Handbook*

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On 8 May 2012 the Trustees of the IFRS Foundation, responsible for the governance and oversight of the IASB, published for public comment an updated version of the *Due Process Handbook of IASB and IFRS Interpretation Committee (Due Process Handbook)*.

EFRAG TEG and CFSS members discussed the proposed *Due Process Handbook* and the draft comment letter prepared by EFRAG Staff.

EFRAG expressed a general support for the changes in *Due Process Handbook*. The main concerns raised by EFRAG in its draft included:

- The research programme phase should always be concluded by a public consultation phase on major findings and conclusions derived.
- Involving and coordinating with regional and national accounting standards bodies in the research programme, in outreach activities and field testing and in post-implementation reviews is an effective way to improve transparency, efficiency and mutual understanding in this area of the standard setting process.
- Effects analyses should be included in all steps of the standard setting process and results should be publicly available prior to the IASB making decisions.
- Review drafts should be published as systematic public “fatal flaw” reviews and form the basis for ultimate field tests, if necessary.
- Rejection notices should not become in effect additional interpretations, the IFRS Interpretation Committee should assess the outcome of consensus with regards to the qualitative characteristics of financial reporting, and more particularly on relevance.
- IFRS Interpretation Committee members should be allowed to write dissenting opinions.

EFRAG expected to publish the draft comment letter for comments in the first half of July 2012.

## IASB Project *Financial Instruments*

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During its June 2012 meeting, EFRAG TEG members discussed the development of a study on the importance of bifurcation of financial assets for companies in Europe and the impact of IFRS 9's prohibition of bifurcation of financial assets. The study is to be carried out in cooperation with the national standard setters.

In May 2012, the IASB tentatively agreed to introduce fair value through other comprehensive income (FV-OCI) as a measurement category for eligible debt instruments. EFRAG TEG members discussed to which extent the new measurement category is an adequate answer for liquidity portfolios of financial institutions. EFRAG also considered how far the proposal addresses concerns from insurers about reporting volatility and business performance.

## IASB Project *Comprehensive Review of IFRS for SMEs (2012 - 2014 Cycle)*

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The IFRS for SMEs was issued in July 2009. At that time the IASB decided to undertake an initial comprehensive review of the standard after the first two years' experience entities have had in implementing the standard and consider whether there would be a need for any amendments.

At its June 2012 meeting, the IASB approved a document to seek input to consider when preparing an exposure draft on the revision of the standard.

EFRAG's SME Working Group discussed the specific issues of the IASB document in June 2012. Based on these discussions, EFRAG staff noted some different basic views of the purpose of the IFRS for SMEs and its developments.

At the June 2012 CFSS meeting, these basic views were presented for members. One of the basic issues was whether measurement and recognition requirements of the IFRS for SMEs and full IFRS should be similar or not.

Similarly to the members of the EFRAG SME Working Group, EFRAG CFSS and EFRAG TEG members had different basic views of the purpose of the IFRS for SME's and how it should be developed. EFRAG's draft comment letter will therefore include questions about the different views.

## IASB Project *Post-implementation Reviews*

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During the session at the joint EFRAG TEG and CFSS meeting, members discussed the IASB's plans for the post-implementation review of IFRS 8 *Operating Segments*. EFRAG staff presented a high-level summary of research findings to date and identified the areas which have not yet been thoroughly investigated in the academic literature.

EFRAG will prepare a proposal for European involvement in the post-implementation review, which will be discussed with National Standard Setters and the IASB.

## IFRS Interpretations Committee Project *Put options written on non-controlling interests*

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EFRAG discussed a draft comment letter on the proposals in Draft Interpretation DI/2012/2 *Put Options Written on Non-controlling Interests*. Some EFRAG TEG members expressed concerns about the proposals, while others supported the Draft Interpretation, subject to some changes being made. EFRAG TEG members reached the following tentative decisions:

- EFRAG recommended that the Interpretations Committee should develop a broader interpretation that takes into account all relevant aspects of accounting for put options written over non-controlling interests and that is consistent with the principles underlying IFRS 3, IFRS 10/IAS 27, IAS 32 and IFRIC 17. If the Interpretations Committee is unable to develop such an interpretation, they should report back to the Board who should consider prioritising the debt/equity project; and

- EFRAG's draft comment letter should answer the questions asked in the Draft Interpretation, in case the Interpretations Committee does not follow EFRAG's recommendation. Those answers should set out the arguments both for and against remeasurement in equity and in profit or loss, and ask constituents which of the views they support and why.

A revised draft comment letter will be discussed in the EFRAG conference call in July 2012.

## **IASB Project *Insurance Contracts***

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EFRAG TEG members received an update in relation to the IASB Project *Insurance Contracts* including the latest developments and tentative decisions made by the Board on the use of other comprehensive income to account for changes in the insurance liabilities arising from changes in the discount rate. EFRAG was also provided with feedback from the EFRAG Insurance Accounting Working Group latest meetings.

EFRAG did not take any decisions during this session.

## **IASB Project *Annual Improvements to IFRSs (2009 - 2011 Cycle)***

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In May 2012, the IASB issued *Annual Improvements to IFRSs (2009 - 2011 Cycle)*.

The annual improvements make a number of relatively minor amendments to IFRSs that are effective for annual periods beginning on or after 1 January 2013, although early application is permitted.

EFRAG has issued an invitation to comment relating to the endorsement of the *Annual Improvements to IFRSs 2009-2011 Cycle* for use in the European Union and European Economic Area. EFRAG is consulting both on its assessment of the Annual Improvements to IFRSs 2009 - 2011 Cycle against the technical criteria for the endorsement in the EU and on its initial assessment of the costs and benefits that would arise from the implementation and application of Annual Improvements to IFRSs 2009 - 2011 in the EU.

EFRAG's initial assessment is that the Annual Improvements to IFRSs 2009 - 2011 satisfy the technical criteria for EU endorsement and EFRAG should therefore recommend their endorsement.

Comments are invited on the draft endorsement advice and effects study report by 25 July 2012.

## **IFRS Interpretation Committee Project *Levies Charged by Public Authorities on Entities that Operate in a Specific Market***

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The IFRS Interpretations Committee published a Draft Interpretation on *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*. The main issue relates to when a liability to pay a levy should be recognised by an entity. The Draft Interpretation is open for comment until 5 September 2012.

At its June 2012 meeting EFRAG TEG members discussed the content of EFRAG's draft comment letter. EFRAG TEG members acknowledged that there is divergence in practice in how entities account for the obligation to pay certain levies and agreed that specific guidance would improve the consistency in practice.

Members also considered that the main conclusions in the Draft Interpretation are appropriate and aligned with the principles in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. However, members considered “levies that are due if a minimum revenue threshold is achieved” as one of the relevant issues to be addressed in the Draft Interpretation.

As part of the issues on interim financial reporting, some members expressed their concerns that some users consider the recognition of ability to pay a levy, and related expense progressively, even if the present obligation arises only at the end of the annual reporting period.

EFRAG did not take any decisions during this session. EFRAG staff will present a revised draft comment letter at a conference call on 2 July.

## **EFRAG Proactive Project *Separate Financial Statements***

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EFRAG TEG members received an update in relation to EFRAG Proactive Project *Separate Financial Statements*, as its scope was changed and approved on 23 May 2012 by the EFRAG Planning Resources Committee.

The project is intended to consider how financial statements, other than consolidated financial statements, are used in Europe for economic decision-making, and to analyse the technical financial reporting issues that arise when preparing such financial statements under IFRS. Accordingly, the aim is to consider accounting requirements that would not typically be applied in the consolidated financial statements. It would therefore encompass areas such as common control transactions; measurement of investments; and any disclosures that are necessary to satisfy the needs of the users of these financial statements.

## **EFRAG Proactive Project *Disclosure Framework for the Notes to the Financial Statements***

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During its June 2012 meeting, final comments from EFRAG TEG members and preliminary comments from the partners’ Boards (the ANC and the UK ASB) were discussed for inclusion in the paper.

The objectives of the Discussion Paper are to:

- identify what disclosures are relevant for the notes to the financial statements;
- discuss what materiality means from a disclosure perspective; and
- develop a set of principles for good communication of disclosures.

EFRAG approved the discussion paper subject to drafting. The ANC and the UK ASB will discuss the revised draft at their meetings on July 5.