

January

Summary of EFRAG meetings held in January 2010

On 21 January 2010, EFRAG held a meeting by public conference call to discuss:

- IASB Amendments to IAS 24 *Related Party Disclosures*
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instrument*.

On 27 -29 January 2010, EFRAG held its monthly meeting and discussed:

- IASB Exposure Draft *Measurement of Liabilities in IAS 37*
- IFRS for SMEs and the European Council Directives
- IASB Exposure Draft *Financial Instruments: Amortised Cost and Impairment*
- IASB Exposure Draft *Conceptual Framework – The Reporting Entity*
- IASB Amendment to IFRIC 14 *Prepayment of a Minimum Funding Requirement*
- IASB request on *Derecognition*
- IASB project *Insurance Contracts*
- IASB Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*
- IASB project *Hedge Accounting*
- EFRAG Pro-active project *Disclosure Framework*
- EFRAG Pro-active project *Performance Reporting*.

Highlights

Endorsement advice

EFRAG finalised its endorsement advice to the European Commission on the following:

- IASB Amendments to IAS 24 *Related Party Disclosures* (page 2)
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (page 2)
- IASB Amendment to IFRIC 14 *Prepayment of a Minimum Funding Requirement* (page 4).

EFRAG agreed to issue for public comment its draft endorsement advice to the European Commission on the following:

- IASB Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*. The deadline for comments is 18 February 2010 (page 4).

IASB Amendments to IAS 24 *Related Party Disclosures*

In November 2009, EFRAG issued an Invitation to Comment on its draft endorsement advice and a draft Effect Study Report on the Amendments to IAS 24 (the Amendments), which were published by the IASB in November 2009. The Amendments revised the definition of a related party to make the related party relationships symmetrical (that is, if A related to B in B's financial statements, then B is also related to A in A's financial statements) and to remove some inconsistencies; it also provided relief to government-related entities on the amount of information required to be disclosed for related party transactions and relationships. Based on the comments received, at a conference call held on 21 January 2010, EFRAG agreed to issue to the European Commission both the positive endorsement advice and the Effect Study Report.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instrument*

In December 2009, EFRAG issued an Invitation to Comment on its draft endorsement advice and a draft Effect Study Report in respect of IFRIC 19, which was published by the IASB in November 2009. IFRIC 19 provides guidance on how an issuer of an equity instrument should account for a debt-for-equity swap, that is, it addresses a situation, in which a debtor and creditor renegotiate the terms of a financial liability and as a result the liability is fully or partially extinguished by the debtor by issuing equity instrument to the creditor. Based on the comments received, at a conference call held on 21 January 2010, EFRAG agreed to issue to the European Commission both the positive endorsement advice and the Effect Study Report.

IASB Exposure Draft *Measurement of Liabilities in IAS 37*

EFRAG members continued discussing the IASB Exposure Draft *Measurement of Liabilities in IAS 37* (the ED) and tentatively agreed on the following main messages for the EFRAG's draft comment letter:

- *Due process* – EFRAG members disagreed with the decision of the IASB to re-expose only the measurement requirements as, in their view, the full standard should be re-exposed.
- *Removal of the probability of outflows recognition criterion* – EFRAG members tentatively reaffirmed their view that they did not support the removal of the probability of outflows recognition criterion as it was inconsistent with the current IFRS Framework.
- *Measurement guidance in the ED* – EFRAG members expressed a number of concerns in respect of proposals in the ED, in particular they *did not* support:
 - the proposed measurement objective, as in their view, is should be to project an amount that the entity would incur to settle an obligation. In addition, EFRAG members believed that an entity's business model for dealing with a particular class of liabilities should be taken into account in measuring that type of liabilities;
 - the inclusion of a risk adjustment in arriving at the present value of resources required to fulfil an obligation;
 - the inclusion of a profit margin in estimating the amount of an obligation to undertake services (for example, decommissioning liabilities), when such services are performed using an entity's internal resources.
- *Expected value model for measuring single items* – some EFRAG members did not support the use of the expected value model as a tool for measuring single obligations (for example, litigations), although other noted that it could be considered appropriate in some cases; however the availability of reliable information as inputs into the model is critical for the model to be operational.

IFRS for SMEs and the European Council Directives

The European Commission asked EFRAG to provide a report on the aspects of IFRS for SMEs that may be incompatible with the EU Accounting Directives. At its January 2010 meeting, EFRAG tentatively approved for issuance a draft report for public comment, which will suggest that the following *requirements* of IFRS for SMEs are in conflict with the Council Directives:

- to measure investments in associates and joint ventures at fair value in consolidated and non-separate financial statements when a published price quotation exists;
- to amortise goodwill over ten years when an entity is unable to make reliable estimate of its useful life;
- to recognise immediately in profit or loss any negative goodwill, which is not related to a realised gain;
- to measure non-basic financial instruments at fair value.

The draft report also will suggest that the following *prohibitions* in IFRS for SMEs are in conflict with the Council Directives:

- to reverse impairment loss recognised for goodwill;
- to present or describe items of income and expense as “extraordinary items”.

In addition, the draft report also highlights some issues, which in view of some EFRAG members might be in conflict with the Council Directives.

IASB Exposure Draft *Financial Instruments: Amortised Cost and Impairment*

At this meeting, EFRAG continued discussing a draft comment letter in response to the IASB's Exposure Draft *Financial Instruments: Amortised Cost and Impairment* (the ED). The ED proposes to clearly set out the objective of amortised cost measurement and how it should be calculated. The ED proposes that amortised cost would be measured on an “expected cash flow” basis. The significant change to current practice proposed by the ED is that impairment of financial assets would be an integral component of the amortised cost measurement model. As a result, on initial recognition an entity would estimate the expected cash flows arising from a financial asset, including an estimate for expected credit losses. The credit losses estimated on initial recognition would be then allocated using the effective interest method over the expected life of the financial asset. Any subsequent changes in estimates of future cash flows would be recognised in the period in which the re-estimate occurs.

In line with the project plan agreed at the December 2009 meeting, at this meeting EFRAG only focused on an assessment of the technical aspects of the proposals. From a technical perspective, the draft comment letter was cautiously supportive of the proposals, but several concerns were raised. These included concerns related to the emphasis on financial institutions and the lack of sufficient practical expedients for non-financial institutions, the significant use of management judgement, the difficulties in estimating future cash flows and the treatment of revolving credit facilities. Concerns were also raised about the absence of due process around any guidance developed by the IASB's Expert Advisory Panel.

EFRAG will finalise the draft comment letter shortly with an objective to issue this letter for public consultation early in February 2010. The draft comment letter will be available on EFRAG's web site.

IASB Exposure Draft *Conceptual Framework - The Reporting Entity*

At this meeting, EFRAG members continued discussing the joint IASB/FASB forthcoming exposure draft on the *Conceptual Framework project The Reporting Entity (Phase D)* and focused on the definition of a reporting entity and the notion of control. EFRAG Members provided their views on how broad the definition of a reporting entity should be and discussed some features of the proposed definition of a reporting entity. They also discussed whether the term “control” should be defined in the Framework or at the individual standards level.

An Exposure Draft of an *Improved Conceptual Framework for Financial Reporting: The Reporting Entity* (the ED) is expected shortly.

IASB Amendment to IFRIC 14 *Prepayment of a Minimum Funding Requirement*

In December 2009, EFRAG issued an Invitation to Comment on its draft endorsement advice and a draft Effect Study Report in respect of the Amendment to IFRIC 14, which was published by the IASB in November 2009 (the Amendment). The Amendment eliminated an unintended consequence of the interpretation and changed the accounting for certain prepayments of a pension scheme’s minimum funding requirements. Based on the comments received, EFRAG will issue to the European Commission both the positive endorsement advice and the Effect Study Report.

IASB request on *Derecognition*

EFRAG has discussed the accounting model being considered as part of the IASB’s derecognition project. The model is based on the notion of control in the working definition of an asset, which refers to “present access to the cash flows”. At this meeting, the IASB staff made a presentation of the model being considered by the IASB and updated EFRAG members on the overall status of the derecognition project. EFRAG will continue discussing this project at its future meetings.

IASB project *Insurance Contracts*

IASB is currently redeliberating its proposals in respect of the insurance contracts project. One of the tentative IASB’s decisions is to propose that acquisition costs in respect of insurance contracts would be recognised as expense as incurred. EFRAG will discuss this issue again at its next meeting.

IASB Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*

In January 2010, the IASB issued the Amendment to IFRS 1, which provides first-time adopters of IFRS with a temporary exemption for comparative disclosures about liquidity risk and fair value measurement. This exemption is currently available to entities that already prepare financial statements in accordance with IFRS. EFRAG completed its initial assessments of the Amendment against the EU endorsement criteria and a draft Effect Study Report evaluating the cost and benefit of the Amendment. EFRAG’s initial assessment is that the Amendment meets the criteria for endorsement in the EU and the benefits that are expected to arise are likely to exceed the cost of implementing the Amendment. Based on the results of the meeting, EFRAG has issued for Comment its draft endorsement advice and draft effects study report which are both available on EFRAG’s website. The deadline for comments is 18 February 2010.

IASB project *Hedge Accounting*

EFRAG continued discussing the IASB's *Phase III of IAS 39 Replacement Project: Hedge Accounting*. At this meeting, EFRAG considered the IASB's tentative decisions to date in respect of the project timeline, the objective of hedge accounting and the eligibility for hedge accounting of risk components of a hedged item.

EFRAG noted that it was critical from a European perspective to find a solution to portfolio hedge accounting. EFRAG will continue researching the hedge accounting issues in the European context and will monitor the work of the IASB and other organisations and companies on this issue.

EFRAG Pro-active project *Disclosure Framework*

EFRAG had an initial discussion about the scope of a new pro-active project, the objective of which is to develop a Framework for Disclosures. EFRAG preferred at this stage a narrow scope, which would focus on the notes in financial statements. EFRAG members noted that it is important that the Framework for Disclosures identifies an appropriate set of qualitative characteristics that can be used to organise disclosure requirements.

EFRAG Pro-active project *Performance Reporting*

In March 2009 EFRAG issued for public comment *Performance Reporting: A European Discussion Paper* (PAAinE DP). This PAAinE DP followed an initial discussion paper issued in November 2006 *What (if anything) is wrong with the good old Income Statement?* The purpose of the PAAinE DP was to discuss some fundamental issues about the presentation of financial performance. The comment period for PAAinE DP closed on 31 December 2009. EFRAG received fifteen comment letters, which are available on EFRAG's web site. At this meeting, EFRAG received an update on the responses and directed the staff to draft a feedback report, which will provide a summary of comments in respect of the PAAinE DP.

Future meetings

The next meeting of EFRAG TEG will take place on 24 – 26 February 2010.

Conference calls are scheduled for 16, 18 and 19 February 2010.