

April 2012

Summary of EFRAG meetings held in March and April 2012

On 20 March 2012, EFRAG held a meeting to discuss:

- IFRS 10 *Consolidation*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 (amended 2011) *Separate Financial Statements* and IAS 28 (amended 2011) *Investments in Associates and Joint Ventures*
- IASB Exposure Draft *Revenue from Contracts with Customers*

On 23 March 2012, EFRAG held meetings by public conference call to discuss:

- IFRS 10, IFRS 11, IFRS 12, IAS 27 (amended 2011) and IAS 28 (amended 2011)
- IASB Exposure Draft *Transition Guidance* (proposed amendments to IFRS 10)
- ESMA's Consultation Paper on *Consideration of materiality in financial reporting*

From 2 to 4 April 2012, EFRAG held its monthly meeting. The last day of the meeting was held together with the European national standard setters in EFRAG's Consultative Forum of Standard Setters (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*
- *Government Loans* (Amendments to IFRS 1)
- IASB Project *Offsetting*
- IASB Project *Impairment*
- IASB Project *Targeted Improvements to IFRS 9*
- IASB Project *Post-implementation Reviews*
- EFRAG Proactive project *Disclosure Framework for the Notes to the Financial Statements*
- EFRAG Proactive project *Considering the Effects of Accounting Standards*

Highlights

Endorsement Advices

Consolidation

EFRAG has finalised its Endorsement Advice to the European Commission and the Effects Study report relating to the endorsement of IFRS 10, IFRS 11, IFRS 12, IAS 27 (amended 2011) and IAS 28 (amended 2011) ('the Standards') for use in the European Union and European Economic Area.

EFRAG supports the adoption of the Standards and recommends its endorsement.

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.

Notwithstanding the positive endorsement, EFRAG does not support the mandatory effective date of 1 January 2013, the field-tests it has conducted provided evidence that some financial institutions would need more time to implement IFRS 10, IFRS 11 and IFRS 12 in a manner that brings reliable financial reporting to capital markets. Therefore, EFRAG recommends the mandatory effective date of the Standards to be 1 January 2014 with early adoption permitted (page 2).

Government Loans

EFRAG has issued an Invitation to Comment relating to the endorsement of *Government Loans (Amendments to IFRS 1)* (“the Amendments”) for use in the European Union and European Economic Area. It is consulting both on its assessment of the Amendments 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 the amendments in the EU. EFRAG’s initial assessment is that the Amendments satisfy the technical criteria for EU endorsement and EFRAG should therefore recommend its endorsement. The comment deadline is 7 May 2012 (page 4).

Comment letters to the IASB

IASB Exposure Draft *Revenue from contracts with customers*

EFRAG finalised its comment letter to the IASB in response to the IASB ED *Revenue from contracts with customers*. In general, EFRAG welcomes the changes made to the 2010 ED. However, it disagrees with some of the proposals and considers that clarification is needed on several issues (page 3).

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

EFRAG finalised its comment letter to the IASB on the Exposure Draft *Transition Guidance (Proposed amendments to IFRS 10)* which was published in December 2011. In its comment letter EFRAG welcomes the IASB’s decision to clarify the transition guidance in IFRS 10.

EFRAG supports the proposed amendments as they provide greater clarity and ensure consistent application of the transition requirements of IFRS 10 (page 3).

Comment letters to ESMA

EFRAG has finalised and issued its final comment letter on ESMA Consultation Paper *Considerations of Materiality in Financial Reporting*,

A key message in the final comment letter is that should the need for further clarification emerge from the debate about the concept of materiality and its application, EFRAG believes it is the role of the IASB to provide the guidance.

IFRS 10, IFRS 11, IFRS 12, IAS 27 (amended 2011) and IAS 28 (amended 2011)

EFRAG has finalised its Endorsement Advice to the European Commission and the Effects Study report relating to the endorsement of IFRS 10, IFRS 11, IFRS 12, IAS 27 (amended 2011) and IAS 28 (amended 2011) (“the Standards”) for use in the European Union and European Economic Area.

To summarise, EFRAG supports the adoption of the Standards and recommends its endorsement. However, notwithstanding the positive recommendation that the Standards meet the endorsement criteria, EFRAG does not support the mandatory effective date of 1 January 2013, the field-tests it has conducted

provided evidence that some financial institutions would need more time to implement IFRS 10, IFRS 11 and IFRS 12 in a manner that brings reliable financial reporting to capital markets. Therefore, EFRAG recommends the mandatory effective date of the Standards to be 1 January 2014 with early adoption permitted. Given the interaction between the Standards, EFRAG believes that the mandatory effective date should be the same for all the Standards.

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

At its meeting on 23 March, EFRAG finalised its comment letter to the IASB on the Exposure Draft *Transition Guidance* (proposed amendments to IFRS 10) which was published in December 2011.

In its comment letter EFRAG welcomes the IASB's decision to clarify the transition guidance in IFRS 10. EFRAG supports the proposed amendments as they provide greater clarity and ensure consistent application of the transition requirements of IFRS 10. EFRAG agrees with the amendments as they provide an appropriate trade-off between the costs to preparers and benefits to users. The comment letter is available on EFRAG's website.

At its meeting on 3 April meeting, EFRAG considered providing a feedback statement on the comments received by its constituents and the objective of such feedback.

EFRAG did not take any decisions during the session at the April meeting.

IASB Exposure Draft *Revenue from Contracts with Customers*

At its April 2012 meeting, EFRAG considered additional comment letters received in response to its draft comment letter on the IASB ED *Revenue from contracts with customers* and approved its comment letter. In general, EFRAG welcomes the changes made to the 2010 ED. However, it considers it unclear whether a right to, or at least a reasonably assurance of a right to, consideration is necessary before recognising revenue according to the ED. EFRAG would be concerned if revenue could be recognised without such a reasonable assurance.

In addition, EFRAG disagrees with the proposals to:

- limit the onerous test for performance obligations satisfied over a period of time greater than one year;
- perform the onerous test at a performance obligation level;
- offset advances received against contract assets in all circumstances;
- allocate contingent amounts either to all or only to one performance obligation;
- require the effects of a customer's credit risk to be reflected in a separate line item adjacent to revenue; and
- require a list of specific disclosure requirements in IAS 34 *Interim Financial Reporting*.

After considering the findings of its field-tests, EFRAG recommends the IASB to clarify several of the proposals. For example, EFRAG recommends the IASB to:

- clarify whether or not a contract is a contract with a customer or a contract with a partner or collaborator;

- develop a model for situations where it is not possible to determine the stand-alone selling prices; and
- clarify the guidance on how to identify separate performance obligations.

Finally, EFRAG discussed the concerns that exist about the cost/benefit effectiveness of the disclosure requirements and the application of the proposals for entities in the telecommunications industry.

ESMA's Consultation Paper on *Consideration of materiality in financial reporting*

EFRAG has finalised and issued its final comment letter on ESMA's Consultation Paper *Considerations of materiality in financial reporting*, following the conference call of 23 March 2012.

EFRAG believes that materiality judgements should not be made in isolation, and that it is important that surrounding circumstances always be taken into account. Accordingly, whilst quantitative thresholds are helpful in highlighting the areas that need to be considered, they should never be applied mechanically without relevant qualitative factors being taken into account.

A key message in the final comment letter is that should the need for further clarification emerge from the debate about the concept of materiality and its application, EFRAG believes it is the role of the IASB to provide the guidance.

Government Loans (Amendments to IFRS 1)

On 13 March 2012, the IASB published amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards Government Loans* ('the Amendments'). The Amendments are dealing with loans received from governments at a below market rate of interest and give first-time adopters of IFRSs relief from full retrospective application on transition to IFRSs. This relief is the same as the one which 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 has issued an Invitation to Comment relating to the endorsement of the Amendments for use in the European Union and European Economic Area. It is consulting both on its assessment of the amendments 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 the Amendments in the EU.

EFRAG's initial assessment is that the Amendments satisfy the technical criteria for EU endorsement and EFRAG should therefore recommend its endorsement.

Comments are requested by 7 May 2012.

IASB Project *Offsetting*

In January 2012, EFRAG issued an Invitation to Comment on its draft endorsement advice and a draft Effect Study Report on Amendments to IAS 32 *Financial Instruments: Presentation* as well as Amendments to IFRS 7 *Disclosures-Offsetting Financial Assets and Financial Liabilities* (‘the Amendments’), which were issued by the IASB in December 2011.

IAS 32 was amended to add application guidance to address the inconsistent application of the standard in practice. The amendments to IFRS 7 require disclosures that provide both gross and net information about financial assets and financial liabilities that is relevant for analysing financial statements and derive key financial ratios (e.g. leverage).

EFRAG has issued its Endorsement Advice Letter and Effects Study Report relating to the endorsement of the Amendments. EFRAG has assessed that the Amendments meet the technical criteria 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 *Impairment*

EFRAG TEG members had an educational session on impairment. The key considerations for the development of the impairment model were discussed.

EFRAG did not make any decisions during this session.

IASB Project *Targeted Improvements to IFRS 9*

EFRAG TEG and CFSS members received an update in relation to the IASB Project *Targeted Improvements to IFRS 9* including the latest developments and tentative decisions taken by the Board.

EFRAG did not take any decisions during this session.

IASB Project *Post-implementation Reviews*

EFRAG staff outlined that the IASB has started work on the post-implementation review of IFRS 8 *Operating Segments* on which it is expected to issue a Request for Views in June 2012. In addition, the IASB will start work on the post-implementation review of IFRS 3 *Business Combinations* around the same time.

EFRAG TEG and CFSS members discussed how EFRAG and the European standard setters could be involved in the IASB post-implementation reviews.

EFRAG Proactive project *Disclosure Framework for the Notes to the Financial Statements*

During the session at the EFRAG TEG meeting, EFRAG staff outlined the initial draft of the Discussion Paper on the pro-active project. Project partners the ANC and the UK ASB provided an update on the deliberations by their Boards on the project. Lawrence Smith, FASB Board member, and Ron Lott, FASB Research Director, gave an update on the status of the FASB's disclosure framework project.

EFRAG TEG members made a number of comments and suggestions on the structure and content of the Discussion Paper. In particular, they noted that it was important to offer a comprehensive and balanced view of the different alternatives in the Discussion Paper to promote an open discussion among constituents. EFRAG TEG members asked the staff to provide more analysis on how risk should be presented in the Framework.

Some EFRAG TEG members made the point that the Discussion Paper should provide examples of the impact of the proposals on the existing disclosure requirements.

During the session at the joint EFRAG TEG and CFSS meeting, EFRAG staff presented an overview of the Disclosure Framework and the content of the Discussion Paper.

EFRAG Proactive project *Considering the Effects of Accounting Standards*

During the CFSS meeting, EFRAG staff presented the positions of EFRAG and the UK ASB's in response to the comments received on their Discussion Paper "Considering the Effects of Accounting Standards" (the DP), published in January 2011.

The positions were generally welcomed by the CFSS members. There was strong support for the contribution the DP had made to bringing effects analysis on the agenda and for it to be considered throughout the standard setting process.

In formulating its position on the different aspects of effects analysis, EFRAG and the UK ASB carefully considered the outcome of the public consultation. EFRAG and the UK ASB expect to issue a feedback statement and publish a position paper by the end of April.