

July 2015

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.

July Publications

Final Endorsement Advice

On 23 July, EFRAG issued its final endorsement advice to the European Commission on the IASB publication, *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)*, recommending the adoption of the amendments for use within the European Union and European Economic Area.

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

Final Comment letter

On 2 July, EFRAG published its comment letter in response to the IASB Exposure Draft ED 2015/2 *Effective Date of IFRS 15 (Proposed amendments to IFRS 15)*, supporting the IASB's proposal to defer the effective date of IFRS 15 to 1 January 2018.

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

Draft Comment letters

On 24 July, EFRAG published its draft comment letter in response to the IASB's Exposure Draft ED/2015/5 *Remeasurement on a Plan Amendment, Curtailment or Settlement / Availability of a Refund from a Defined Benefit Plan (Proposed amendments to IAS 19 and IFRIC 14)*. Comments are requested by 9 October 2015.

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

Other public consultations

On 8 July, EFRAG published a document for public consultation on the IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*. Comments are requested by 26 October 2015.

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

Feedback Statement

On 29 July, EFRAG published its feedback statement, summarising responses received to its draft comment letter, on the IASB's Exposure Draft ED/2015/1 *Classification of Liabilities - Proposed amendments to IAS 1*.

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

On 30 July, EFRAG published a feedback statement on input received during the individual, insurance specialist user outreach on the potential deferral of the IFRS 9 effective date for insurers. This input is used by EFRAG in developing its final endorsement advice for the European Commission on IFRS 9 *Financial Instruments*.

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

Letter to the IASB

On 16 July, EFRAG sent a letter to the IASB requesting an extension of the comment period related to the IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*, until 26 December 2015.

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

Letter to the European Commission

On 22 July 2015, the IASB decided to defer the effective date of IFRS 15 to 1 January 2018. Accordingly, on 29 July 2015, EFRAG sent a letter informing the European Commission that “the effective date set by the IASB” would be 1 January 2018.

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

Other publications

EFRAG published a short discussion series paper, *The Statement of Cash Flows: Issues for Financial Institutions*, on 15 July 2015. The paper discusses the relevance of the statement of cash flows for financial institutions and investigates alternatives that could either supplement or replace the information currently portrayed by these entities in the statement of cash flows.

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

EFRAG published a bulletin, *Conceptual Framework — Getting a Better Framework: Profit or Loss versus OCI*, on 14 July 2015. The bulletin was published to contribute to the discussion on what items should be reported in profit or loss and what items should be reported in other comprehensive income.

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

July 2015 meetings

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

- EFRAG Board
- EFRAG Technical Expert Group (EFRAG TEG)
- EFRAG Consultative Forum of Standard Setters (EFRAG CFSS)

Detailed meeting reports

EFRAG Board – Meeting on 21 and 22 July and conference call on 29 July 2015

The EFRAG Board met on 21 and 22 July and held a conference call on 29 July 2015 and discussed the following:

- IFRS 9 *Financial Instruments*
- IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*
- IASB Publication *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)*
- EFRAG/ICAS sponsored study on the information needs of professional investors
- EFRAG Work plan

IFRS 9 Financial Instruments

At its meeting on 21-22 July 2015, the EFRAG Board considered the comments from constituents on the draft endorsement advice of IFRS 9 and discussed the next steps. The EFRAG Board tentatively agreed that the final endorsement advice should advise that IFRS 9 is not contrary to the true and fair principle. EFRAG Board also agreed that IFRS 9 will be conducive to the European public good, once an acceptable remedy to the potential disruptions caused by the non-alignment of the effective dates of IFRS 9 and the future insurance contracts standard is identified. It therefore decided to recommend the European Commission obtain from the IASB that the necessary IFRS amendment is processed expeditiously and that the same applies to the finalisation of the insurance contract standard, so that this new standard can be considered for endorsement in Europe in 2016.

At the conference call on 29 July 2015, the EFRAG Board reaffirmed the tentative decisions noted above and agreed editorial changes to the endorsement advice relating to the use of fair value, the differences in impairment guidance between IFRS 9 and the proposed changes to US GAAP and the impact on major industry sectors.

The agenda and the agenda papers of the public sessions are available on the [EFRAG website](#).

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

The EFRAG Board identified a number of issues arising from the IASB Exposure Draft which are planned to be discussed in forthcoming meetings.

IASB Publication *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)*

The EFRAG Board approved the final endorsement advice on the above standard and concluded that it is not contrary to the true and fair principle and will be conducive to the European public good.

EFRAG/ICAS sponsored study on the information needs of professional investors

The EFRAG Board was provided with an update on the EFRAG/ICAS sponsored study, and thanked the academic team for the excellent work they had undertaken.

EFRAG Work plan

The EFRAG Board approved the work plan as presented.

The agenda and the agenda papers of the public sessions are available on the [EFRAG website](#).

EFRAG Board – July written procedures

The EFRAG Board approved the following document, using written procedures:

- EFRAG's Final Comment Letter in response to the IASB Exposure Draft *ED/2015/5 Remeasurement on a Plan Amendment, Curtailment or Settlement/ Availability of a Refund from a Defined Benefit Plan (Proposed amendments to IAS 19 and IFRIC 14)*.

Joint EFRAG TEG and CFSS – Meeting on 8 July 2015

EFRAG TEG and CFSS met on 8 July and discussed the following:

- IASB Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*
- IFRS 15 *Revenue from Contracts with Customers*
- IASB Project *Disclosure Initiative*
- IASB Project *Leases*
- IASB Research Project *Pollutant Pricing Mechanisms*
- IASB Research Project *Discount Rate*
- IASB Research Project *Reporting the Financial Effects of Rate Regulation*
- IASB Research Project *Provisions, Contingent Liabilities and Contingent Assets (IAS 37)*

The main purpose of the meeting of EFRAG CFSS was to provide advice to the EFRAG representatives in their preparation for the Accounting Standards Advisory Forum meeting.

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

EFRAG CFSS discussed the papers related to the IASB exposure draft that were prepared for the July 2015 ASAF meeting. This included:

- the guidance on recognition and de-recognition proposed in the exposure draft; and
- a paper prepared by EFRAG on a possible method for distinguishing between profit or loss and other comprehensive income (OCI).

On the guidance on recognition and de-recognition, EFRAG CFSS discussed, among other issues, whether it resulted in useful information to recognise items that would only have a few possible outcomes, but with very different results (for example, liabilities resulting from litigations).

Members expressed different views on whether it would be useful to measure assets and liabilities differently for the purpose of the statement of financial position and the statement of profit or loss. EFRAG presented the idea of different measurements at the July 2015 ASAF meeting.

IFRS 15 *Revenue from Contracts with Customers*

EFRAG CFSS received an update on the issues, where either the IASB or the FASB have agreed on clarification to the new revenue standard, since the most recent discussion of this topic at the EFRAG CFSS meeting in March 2015.

IASB Project *Disclosure Initiative*

EFRAG CFSS discussed the proposed content of the forthcoming discussion paper on principles of disclosures. While maintaining their support for the Disclosure Initiative objectives to provide more relevant information and reduce clutter, some EFRAG CFSS members expressed the view that the guidance should not be overly prescriptive, in relation to the content and location of financial information, as this would not work well in their respective legal environments. They also expressed dissatisfaction that this Disclosure Initiative was not yet in active standard setting mode on the core of the issues identified more than five years ago as creating problems.

IASB Project Leases

EFRAG Secretariat provided an update to EFRAG CFSS on:

- the activities carried out or planned by the IASB in the context of the effect analysis of the upcoming standard on leases; and
- the additional activities, planned by EFRAG in coordination with the IASB, to assess the effects of the lease project on debt covenants in the specific context of Europe.

IASB Research Project *Pollutant Pricing Mechanisms*

EFRAG CFSS discussed a numerical example of a pollutant pricing mechanism with the aim of identifying the economics of the fact pattern and how best to report on the financial effects.

Based on the fact pattern described, EFRAG CFSS recommended a number of additional approaches that could be included in a future discussion paper.

IASB Research Project *Discount Rates*

EFRAG CFSS considered the role of discount rates in measurement. EFRAG CFSS thought that there is a need to identify how different elements of present value measurement play their role in accordance with the measurement objectives. Finally, EFRAG CFSS expected some guidance on present value measurement to be embedded in the Conceptual Framework and discussion paper, and noted that specific issues will only be solved when the measurement objectives are clearly defined.

IASB Research Project *Reporting the Financial Effects of Rate Regulation*

EFRAG CFSS discussed the IASB's recent decisions on its project on rate-regulated activities and considered an illustrative example that highlighted a number of items for which the revenue requirement has been, or will be, adjusted for activities that do not directly relate to the delivery of a service to the customer.

EFRAG CFSS agreed that if the IASB were to consider applying a revenue approach to reflect the effects of rate-regulation, then that approach should be in line with the principles in IFRS 15 *Revenue from Contract with Customers*. EFRAG CFSS supported the IASB's decision to publish a second discussion paper exploring possible accounting approaches, as it believed that additional research was needed, based on real-life examples of existing regulations.

IASB Research Project *Provisions, Contingent Liabilities and Contingent Assets (IAS 37)*

EFRAG CFSS considered the issues with the application of IAS 37 and the implications of the Conceptual Framework proposals. Members generally welcomed the initiative to address preparers' concerns and recommended that the following topics be discussed:

- each issue's effect on comparability;
- degree of urgency; and
- type of guidance needed.

The agenda is available on the [EFRAG website](#).

EFRAG Technical Expert Group (TEG) – Meeting on 9 and 10 July 2015

The EFRAG Technical Expert Group met on 9 and 10 July and discussed the following:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- IASB Publication *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)*
- IASB Exposure Draft ED/2015/5 *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan (Proposed amendments to IAS 19 and IFRIC 14)*
- IASB Exposure Draft ED/2015/4 *Updating References to the Conceptual Framework (Proposed amendments to IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32)*
- IASB Project *Insurance Contracts*
- IASB Project *Practice Statement: Application of materiality to financial statements*
- EFRAG proactive work on the use of financial statements
- EFRAG proactive work on accounting implications of negative interest rates
- Preparation for the July Accounting Standards Advisory Forum (ASAF) meeting

IFRS 9 Financial Instruments

EFRAG TEG discussed the comment letters received in response to EFRAG's draft endorsement advice on IFRS 9 *Financial Instruments* and agreed the recommendations EFRAG TEG should make to the EFRAG Board to address the comments received.

IFRS 15 Revenue from Contracts with Customers

EFRAG TEG discussed the exposure draft published in May 2015 by the FASB, with amendments to the guidance on licences and identifying performance obligations of the new revenue standard. EFRAG TEG also received an update on the IASB's latest decisions to make clarifications to the application guidance on principal versus agent in IFRS 15 *Revenue from Contracts with Customers*.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

EFRAG TEG discussed comments received in response to EFRAG's *Invitation to Comment* on its draft endorsement advice. EFRAG TEG agreed to recommend a final endorsement advice supporting the amendments to the EFRAG Board.

IASB Exposure Draft ED/2015/5 Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan (Proposed amendments to IAS 19 and IFRIC 14)

EFRAG TEG discussed EFRAG's draft comment letter on the proposed amendments to IAS 19

and IFRIC 14. EFRAG TEG agreed to recommend the draft comment letter to the EFRAG Board.

IASB Exposure Draft ED/2015/4 *Updating References to the Conceptual Framework (Proposed amendments to IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32)*

EFRAG TEG discussed EFRAG's draft comment letter. Members agreed to ask constituents for their views on the expected impact of the proposed changes to the accounting standards and recommended the draft comment letter to the EFRAG Board.

IASB Project *Insurance Contracts*

EFRAG TEG discussed the educational session on the interaction between IFRS 9 *Financial Instruments* and accounting for insurance contracts, and the decision-making session on the variable fee approach and the contractual service margin release pattern, held in June 2015. EFRAG TEG generally welcomed the IASB's decision in finding an insurance accounting model that reflects the economic characteristics of insurance contracts with participation features. However, there were concerns about whether the defined scope for the variable fee approach would capture all participation contracts that are economically similar to direct participation contracts.

EFRAG TEG also discussed an issues paper exploring whether the application by insurers of IFRS 9 with an available for sale (AFS) option could be a viable alternative to the deferral of IFRS 9. However, EFRAG TEG observed that applying IFRS 9 with an AFS option would result in more complexities than a full deferral of IFRS 9 for insurers and decided against advising EFRAG Board to pursue any alternative that comingles parts of IFRS 9 and parts of IAS 39 for insurance activities.

No decisions were taken at the meeting.

IASB Project *Practice Statement: Application of materiality to financial statements*

EFRAG TEG discussed the form and proposed content of the forthcoming practice statement. EFRAG TEG generally agreed that additional guidance on materiality might be helpful, but expressed mixed views as to whether the guidance should be authoritative or not. However, the majority of EFRAG TEG believed that the guidance should not be attached to a specific standard (such as IAS 1 *Presentation of Financial Statements*) but rather be issued on a stand-alone basis, considering the pervasiveness of materiality.

No decisions were taken at the meeting.

EFRAG proactive work on the use of financial statements

EFRAG staff presented the preliminary results of a study co-sponsored with ICAS on how professional investors use financial statements. The final results of the study are expected to be published in the second part of 2015.

EFRAG proactive work on accounting implications of negative interest rates

EFRAG TEG noted that there is a case for considering accounting requirements when rates are negative. EFRAG TEG, however, reasoned that low discount rates do not limit the usefulness of present values; however, that some imperfections in the current IFRS may be exacerbated by low interest rates and could be identified and highlighted. These conclusions will be reported to the EFRAG Board to seek direction on the project.

Preparation for the July Accounting Standards Advisory Forum (ASAF) meeting

EFRAG TEG discussed the tentative decision of the IASB on how to proceed with the macro hedge accounting project. EFRAG TEG reaffirmed the need for a hedge accounting solution, in line with IFRS 9, and questioned the appropriateness of the proposal that disclosures are considered before addressing the recognition and measurement requirements. EFRAG TEG also took the view that the summary of the views provided by the IASB might benefit more from the comments received.

The agenda is available on the [EFRAG website](#).