



EFRAG UPDATE

JULY 2018

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.

PUBLICATIONS

Draft Endorsement Advice

On 6 July, EFRAG issued a Draft Endorsement Advice and a separate invitation to comment relating to the endorsement for use in the EU of IASB Publication *Amendments to References to the Conceptual Framework in IFRS Standards*. Comments are requested by 14 September 2018.

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

OPEN CONSULTATIONS

Title and description	Closing date
EFRAG Draft Endorsement Advice on IASB publication <i>Amendments to References to the Conceptual Framework in IFRS Standards</i>	14 Sept 2018

For more information please see [EFRAG's consultations page](#).

EFRAG BOARD

Meeting

The EFRAG Board met on [3 July](#) and discussed the following topics:

IFRS 17 Insurance Contracts

The EFRAG Board received presentations from representatives of reinsurers and the CFO Forum who presented the case study findings of CFO Forum members.

The EFRAG Board confirmed that the draft endorsement advice should consider IFRS 17 as issued by the IASB, without considering any potential changes, and agreed to extend the meetings on 21 August and 3 September by one day to provide additional time to discuss issues associated with developing the draft endorsement advice on IFRS 17.



EFRAG Research Project *Equity Instruments – Impairment and Recycling*

The EFRAG Secretariat provided a high-level summary of the replies to the EFRAG Discussion Paper. No decisions were taken at the meeting. The EFRAG Board will discuss the EFRAG TEG recommendation for the technical advice at its August meeting.

EFRAG Research Project *Recycling and Equity Instruments – Alternative Measurement Methods*

The EFRAG Board requested the development of a project plan on the recent request from the European Commission on possible alternative accounting treatments to the fair value measurement for long-term equity and equity type instruments.

EFRAG Technical Work Plan

The EFRAG Board approved the EFRAG Technical work plan as presented.

July 2018 written procedures

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

- EFRAG Draft Endorsement Advice on IASB publication *Amendments to References to the Conceptual Framework in IFRS Standards*.

Expected August 2018 written procedures

The EFRAG Board is not expected to approve any documents using written procedures in August.

EFRAG TEG MEETINGS

The EFRAG Technical Expert Group (EFRAG TEG) met on [5 July](#) and on [25 July](#) and discussed the following topics:

EFRAG TEG meeting on 5 July

IFRS 17 Insurance Contracts

EFRAG TEG was provided with an update on the IFRS 17 project. EFRAG TEG discussed a paper comparing IFRS 17 with US GAAP. This paper will be used as an input to the assessment of competition issues in Appendix 3 of the draft endorsement advice.

EFRAG TEG was provided with the feedback from the user outreach that was conducted in April and May 2018. In addition, EFRAG TEG was provided with the two presentations made at the July 2018 EFRAG Board meeting by the CFO Forum and by the representatives of reinsurers.

No decisions were taken at the meeting.

EFRAG Research Project *Equity Instruments – Impairment and Recycling*

EFRAG TEG discussed a more detailed analysis of the responses from constituents on the EFRAG Discussion Paper *Equity Instruments - Impairment and Recycling* and whether to



advise the EFRAG Board to recommend changes to IFRS 9 in relation to the accounting requirements for equity instruments carried at Fair Value through OCI (FVOCI).

Some EFRAG TEG members considered that the findings did not create a sufficiently strong case for change, and there was need for more evidence about the impact of IFRS 9. Also, no satisfactory solution for the impairment issue had been identified.

Some EFRAG TEG members acknowledged that a FVOCI election may require recycling but considered that the best depiction of the performance for long-term investments was Fair Value through P&L. They noted that the FVOCI election had been designed with strategic investments in mind.

Other EFRAG TEG members confirmed their support for the reintroduction of recycling and noted that the ban on recycling was not consistent with the Conceptual Framework. In their view, the project had identified reasonable impairment solutions.

Some EFRAG TEG members noted that there was no conceptual basis to portray debt and equity instruments differently.

EFRAG TEG voted to advise the EFRAG Board to recommend that no changes should be introduced to IFRS 9 at this stage. EFRAG TEG will finalise its recommendation at its 25 July meeting (see summary below).

EFRAG Research Project *Recycling and Equity Instruments – Alternative Measurement Methods*

EFRAG TEG discussed the new request for technical advice received by the European Commission in relation to the accounting for equity and equity type instruments under IFRS 9 *Financial Instruments*.

Some EFRAG TEG members advised to maintain an open communication with the European Commission to ensure a clear understanding of the content of the request. EFRAG TEG members also noted that assessing whether units held in Undertakings for Collective Investment in Transferable Securities (UCITS) and similar puttable instruments should be considered 'equity type' instruments and raised the question of whether a look-through approach should be considered.

No decisions were taken at the meeting.

2018 EFRAG Research Agenda Consultation

EFRAG TEG discussed the feedback on the EFRAG Research agenda consultation. EFRAG TEG decided to recommend to the EFRAG Board to consider adding new projects on *Digital Assets* and *Variable and Contingent Payments* to EFRAG's research agenda. Additional projects on *Better Information on Intangible Assets* and *Equity Method* were also supported, subject to determining a suitable scope.

[EFRAG TEG meeting on 25 July](#)

IFRS 17 *Insurance Contracts*

EFRAG TEG discussed some of the issues raised by the insurance industry with regards to IFRS 17 and the related case study findings. The discussion was focussed on the technical endorsement criteria.



EFRAG TEG tentatively identified that the following topics may positively affect its advice to the EFRAG Board regarding the assessment of the endorsement criteria: acquisition cash flows, amortisation of the contractual service margin under the general model, discount rates, multi-component contracts and scope of the variable fee approach vs general model and premium allocation approach.

EFRAG TEG tentatively identified that reinsurance and scope of the hedging adjustment may detract from the technical endorsement criteria.

EFRAG TEG will form a view on the other insurance industry topics at the EFRAG TEG webcast meeting on 8 August 2018.

IASB Exposure Draft ED/2018/1 *Accounting Policy Changes (Amendments to IAS 8)*

EFRAG TEG considered the feedback received in response to its consultation on the proposed amendments and unanimously agreed to recommend a Final Comment Letter to the EFRAG Board that reiterates the views expressed in the Draft Comment Letter

The Final Comment Letter will be considered by the EFRAG Board at its meeting on 21-22 August 2018.

IASB Research Project *Financial Instruments with Characteristics of Equity (FICE)*

EFRAG TEG discussed its draft comment letter (EFRAG DCL) to the IASB's Discussion Paper *Financial Instrument with Characteristics of Equity*. EFRAG TEG provided comments on the first five sections of the EFRAG DCL and decided to continue its discussion at its webcast meeting on 8 August 2018.

EFRAG TEG members highlighted the need for the IASB to carefully evaluate the balance of the potential benefits of rearticulating the principles in IAS 32, which result in a limited number of classification changes, against the potential risks of unnecessary disruption and unintended consequences. In particular, EFRAG TEG members expressed some concerns about the IASB's articulation of the timing and amount features, which for example resulted in financial instruments that are only required to be settled on liquidation being classified as financial liabilities.

EFRAG TEG members also considered that the IASB should further consider the option of accounting for all derivatives on own equity as derivative assets or derivative liabilities under the scope of IFRS 9. Finally, EFRAG TEG considered that current exceptions in IAS 32, such as puttable instruments, should be retained until the IASB finds a solution that solves all the issues that gave rise to the exceptions.

No decisions were taken at the meeting.

EFRAG Research Project *Equity Instruments - Impairment and Recycling*

EFRAG TEG continued the discussion on the content of the draft technical advice on the accounting requirements for equity instruments carried at FVOCI. The EFRAG Board will discuss the technical advice to be delivered to the European Commission at its meeting on 22 August 2018.

While EFRAG TEG's overall advice to the EFRAG Board is not to recommend any change to the relevant requirements of IFRS 9 at this stage, EFRAG TEG agreed that the advice should also portray the arguments of those who support immediate changes. The advice should also include a description of the possible solutions presented in the Discussion Paper, but EFRAG TEG agreed not to include a preference on the impairment model.



EFRAG CFSS AND EFRAG TEG MEETING

EFRAG TEG and EFRAG Consultative Forum of Standard Setters (EFRAG CFSS) met on [4 July](#) and discussed the following topics:

IASB Publication *Property, Plant and Equipment: Proceeds before Intended Use* (Proposed amendments to IAS 16)

EFRAG TEG and EFRAG CFSS considered that none of the three proposed approaches suggested by the IASB Staff in moving forward with the *Property, Plant and Equipment* project was feasible. Members noted that the approaches did not address the original issue raised to the IFRS Interpretations Committee. Members also noted that the measurement proposals gave rise to broader conceptual issues and suggested that the IASB could consider some additional disclosure requirements in the short term.

IASB Project *Disclosure Initiative—Targeted Standards-level Review of Disclosures*

EFRAG TEG and EFRAG CFSS discussed the IASB guidance for developing disclosure objectives and requirements and which IFRS Standard(s) should be selected for testing that guidance.

Members generally considered that the approach retained by the IASB (developing drafting guidance and testing it in an iterative process) was sensible. In particular, it was paramount to understand and explain why a disclosure is useful and how the primary users would use the resulting information.

Members noted that reaching out to stakeholders was important but could be a complex and costly process. It was therefore essential to carefully select the targeted IFRS Standards and identify the type of stakeholders the IASB would reach out to. The following IFRS Standards were identified as potential candidates for testing: IFRS 13 *Fair Value Measurements*, IFRS 7 *Financial Instruments: Disclosures*; IFRS 3 *Business Combinations*, IAS 12 *Income Tax* and IAS 19 *Employee Benefits*.

IASB Research Project *Financial Instruments with Characteristics of Equity* (FICE)

The EFRAG Secretariat provided EFRAG TEG and EFRAG CFSS members an educational session on the IASB Discussion Paper *Financial Instruments with Characteristics of Equity* and informed them about the EFRAG's outreach events planned during the consultation period.

Some members welcomed the IASB's efforts to better articulate the classification principles for financial instruments and provide additional guidance on areas where there is a diversity in practice. However, these members highlighted the potential risk of the IASB's preferred approach creating some disruption to established practice and creating new uncertainties, in particular, in terms of having a new terminology, on the classification of foreign currency rights issues and the use of OCI.

Members also highlighted the importance of the interaction between 'contractual rights and obligations' and 'regulatory and legal' requirements, particularly when entities have to deal with bail-in legislation.

A number of EFRAG CFSS members expressed their interest in participating in EFRAG's outreach activities on FICE.



IASB Research Project *Business Combinations under Common Control (BCUCC)*

EFRAG TEG and EFRAG CFSS considered the measurement approaches discussed by the IASB to account for the acquired assets and assumed liabilities in a BCUCC in the receiving entity's financial statements.

Some members thought that when a BCUCC involved non-controlling interests a current value approach should be used. Some members supported the proposal to consider differences between the fair value of the consideration and the acquired business to be a contribution/distribution to/from the receiving party. However, caution was expressed with respect to the practical aspects of determining the fair value of the acquired business.

IASB Research Project *Primary Financial Statements*

The EFRAG Secretariat provided a summary of the IASB's tentative decisions on the research project *Primary Financial Statements*. EFRAG TEG and EFRAG CFSS also discussed the possible next steps, including whether the IASB should move the project to its standard-setting agenda.

EFRAG TEG and EFRAG CFSS acknowledged that the IASB's proposals were not a fundamental review of current requirements in IAS 1 *Presentation of Financial Statements* and IAS 7 *Statement of Cash Flows*, however many considered that the IASB still needed to do more research on performance reporting by financial institutions and multi-sector groups.

The EFRAG Secretariat also presented the *Draft Framework for Reporting Performance Measures* prepared by the Accounting Standards Board of Canada (AcSB). EFRAG TEG and EFRAG CFSS members considered that the approach in the draft framework could promote greater transparency. However, members recalled that various regulators in Europe have issued guidance and noted differences in approach between the draft framework and ESMA's *Guidelines on Alternative Performance Measures*.

IASB Research Project *Goodwill and Impairment*

EFRAG TEG and EFRAG CFSS discussed disclosures for business combinations, goodwill and impairment and, in particular, those tentatively agreed by the IASB and those additionally proposed by the IASB Staff. Members expressed mixed views, but substantially agreed that disclosure could not fix the measurement issues. One member noted that a first step should be to define the objectives of the disclosure. Some members expressed the view that the disclosure should help to evaluate the performance and success of the business combination. Other members observed that the disclosure should provide information that demonstrates the recoverability of goodwill and the mechanics of the impairment test.

AcSB Research on Hybrid Pension Plans

The EFRAG Secretariat presented the results of the research on hybrid pension plans coordinated by the Accounting Standards Board of Canada and explained the similarities and differences with the EFRAG Research project *Pensions Plans*.

Some EFRAG TEG and EFRAG CFSS members noted that, at present, IAS 19 *Employee Benefits* does not properly apply to hybrid plans that are increasingly replacing traditional defined benefit plans. However, members also agreed that it was difficult to find adjustments to the current model that would address the different hybrid plans (cash-balance, asset-based promise, risk-sharing features). Some members called for a more fundamental re-thinking of IAS 19 but acknowledged that this may have to wait until the next IASB agenda consultation.



ESMA Presentation *European Single Electronic Format*

ESMA provided the EFRAG CFSS and EFRAG TEG with an update on the project to introduce the *European Single Electronic Format*, including the outcome of the field testing conducted in 2017.

ASBJ-EFRAG BILATERAL MEETING

On 11 July 2018, representatives of EFRAG and the Accounting Standards Board of Japan (ASBJ) met in Brussels, Belgium. Both provided updates on their respective activities and exchanged views on the opportunities for cooperation.

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