



EFRAG UPDATE

MARCH 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. The agenda papers and webcasting of the meetings are available on the [EFRAG website](#)

PUBLICATIONS

Final Endorsement Advice

On 21 March, EFRAG submitted to the European Commission its Endorsement Advice relating to for use in the European Union and European Economic Area of the IASB's Publication *Annual Improvements to IFRS Standards 2015-2017 Cycle*.

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

Draft Endorsement Advice

On 21 March, EFRAG issued a Draft Endorsement Advice and a separate invitation to comment relating to the endorsement for use in the EU of IASB's Publication *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*. Comments are requested by 21 April 2018.

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

Discussion Paper *Equity Instruments - Impairment and Recycling*

On 1 March, EFRAG issued a Discussion Paper (the 'DP') to gather constituents' views on recycling and impairment of equity instruments designated at fair value through other comprehensive income to develop its technical advice to the European Commission. EFRAG has not included a preliminary view on the issues explored in the DP. Feedback from constituents will be considered in developing its technical advice. Comments are requested by 25 May 2018.

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

Feedback Statement

On 14 March, EFRAG issued a Feedback Statement summarising the input received in response to the consultation on EFRAG's Discussion Paper *Goodwill Impairment Test: Can it be improved?*

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



Annual Review

On 21 March, EFRAG published its Annual Review for the year ended 31 December 2017, providing insights into its activities in the period, a governance report and financial highlights.

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

Background Briefing Papers – IFRS 17 Insurance Contracts

On 22 March, EFRAG published the second and third of three background briefing papers on the requirements of IFRS 17. These papers consider the *Release of the Contractual Service Margin* and the *Transition Requirements* of IFRS 17. The aim of these documents is to provide simplified information on controversial areas of IFRS 17 to enable constituents to understand the issues and be in a position to comment on EFRAG's draft endorsement advice.

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

OPEN CONSULTATIONS

Title and description	Closing date
EFRAG Draft Endorsement Advice on the IASB's Publication <i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)</i>	21 April 2018
Simplified case study - IFRS 17 <i>Insurance Contracts</i>	31 May 2018
EFRAG Discussion Paper <i>Equity Instruments – Impairment and Recycling</i>	25 May 2018

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

EFRAG BOARD

Meeting

The EFRAG Board met on [20 March 2018](#) and discussed the following topics:

IFRS 17 Insurance Contracts

The EFRAG Board received presentations of their views on IFRS 17 from two users of financial statements and from representatives of the accounting and auditing profession.

The EFRAG Board decided that the forthcoming background briefing papers on *Release of the CSM* and *Transition* should not refer to any date or process for constituents' comments. The EFRAG Board also noted that insurers were not expected to comment on the *Level of Aggregation* background briefing paper as the topic would be expected to be raised through the responses to the case study.

The EFRAG Board approved the proposed project plan.



IASB Publication *Long-term interests in Associates and Joint Ventures (Amendments to IAS 28)*

The EFRAG Board approved the final endorsement advice, subject to revising the cover letter's reference to the IASB's research project on the equity method to call for this to include the impact on separate financial statements and referring to the related concerns in the Appendices. The amendments will be finalised at the April meeting.

EFRAG research activities

The EFRAG Board approved the Agenda Consultation for release for public comment, subject to minor editorial amendments.

EFRAG technical work plan

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

March 2018 written procedures

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

- Final Endorsement Advice on the IASB's Publication *Annual Improvements to IFRS Standards 2015-2017 Cycle*; and
- Draft Endorsement Advice on the IASB's Publication *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*.

Expected April 2018 written procedures

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

EFRAG TECHNICAL EXPERT GROUP (TEG)

Meeting

EFRAG TEG met on [7-8 March 2018](#) and discussed the following topics:

IFRS 17 Insurance Contracts

EFRAG TEG discussed two draft background briefing papers on *Release of the Contractual Service Margin* and *Transition Requirements*. EFRAG TEG approved these background papers subject to some editorial changes. EFRAG TEG also discussed the issues raised at the February meeting of the IASB IFRS 17 Transition Resource Group.

EFRAG TEG members suggested the following topics should be discussed further when developing the draft endorsement advice: (i) Separation of insurance components of a single contract; (ii) Boundary of reinsurance contracts held; (iii) Insurance acquisition cash flows paid on an initially written contract; (iv) Determining quantity of benefits for identifying coverage



units; (v) Premiums received applying the premium allocation approach; and (vi) Presentation of groups of insurance contracts in the statement of financial position.

IASB Publication *Annual Improvements to IFRS Standards 2015-2017 Cycle*

EFRAG TEG considered the feedback received in response to the consultation on the draft endorsement advice and agreed to recommend a final endorsement advice supporting the endorsement of the amendments to the EFRAG Board.

IASB Publication *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*

EFRAG TEG discussed the feedback received in response to the consultation on the draft endorsement advice and agreed to recommend a final endorsement advice supporting the endorsement of the amendments to the EFRAG Board.

IASB Publication *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*

EFRAG TEG agreed to recommend a draft endorsement advice supporting the endorsement of the proposed amendments to the EFRAG Board, subject to minor drafting changes.

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

EFRAG TEG members discussed recent developments in the IASB research project.

Many EFRAG TEG members considered that it would be useful to have more disaggregation of the equity components in the statement of financial position, particularly when referring to equity other than ordinary shares. Members noted that the classification of financial instruments with complex payoff structures would always raise classification discussions, particularly when considering that these instruments may contain embedded derivatives and be subject to regulation requirements (e.g. the Bank Recovery and Resolution Directive).

Many EFRAG TEG members also considered that it would be useful for the FICE project to further explore the enhancement of the embedded derivative requirements, noting that consistent treatment of standalone derivatives and similar features embedded within financial instruments with complex payoff structures might serve to limit structuring opportunities.

EFRAG TEG members also considered that the introduction of a cap or a floor should not automatically lead to an equity classification as it could lead to structuring opportunities.

No decisions were taken at the meeting.

IASB Research Project *Primary Financial Statements*

EFRAG TEG received an update on the recent developments on the IASB research project.

EFRAG TEG members discussed and expressed general support for the presentation of share of profit and loss of integral associates and joint ventures in the statement of financial performance and the targeted improvements to the statement of cash flows. However, members provided mixed views on the presentation of management performance measures in the statement of financial performance and considered that the IASB should further clarify its intentions.

No decisions were taken at the meeting.



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

EFRAG TEG received an update on the current developments on the IASB research project on BCUCC and discussed the advantages and disadvantages of various approaches to account for transactions within the scope of the project.

No decisions were taken at the meeting.

IASB Research Project *Goodwill and Impairment*

EFRAG TEG received an update of the IASB Research project on goodwill and impairment.

Many EFRAG TEG members expressed concerns about the updated headroom approach but noted that its practical outcome would depend heavily on the allocation of impairments between recognised and unrecognised goodwill. It was acknowledged that the approach would accelerate impairment losses and might therefore address the ‘too little too late concern’. However, the usefulness of the resulting information was questioned. Nonetheless, members considered that the approach merited further investigation.

Some members suggested it would be preferable, and less costly, to reintroduce amortisation of goodwill which, in their view, had a similar accounting outcome to the updated headroom approach which was to reflect goodwill consumption over time. EFRAG TEG members supported the general direction of the other tentative decisions aimed at simplifying the goodwill impairment test.

No decisions were taken at the meeting.

EFRAG Research Project *Goodwill Amortisation and Impairment*

EFRAG TEG members were provided with a summary of the feedback received on EFRAG’s Discussion Paper *Goodwill Impairment Test: Can it be improved?* issued in June 2017. The Discussion Paper (DP) was met with a good level of attention by European constituents and was widely debated, including at the IASB’s Accounting Standards Advisory Forum.

Members discussed the responses received to the different suggestions included in the DP and highlighted some of the comments made by respondents. For example, some EFRAG TEG members emphasised the fact that if the inputs for the calculation of the value in use would change (e.g. use of post-tax discount rate), then it would be important to ensure consistency between the discount rate, the cash flows used and the carrying amount of the cash generating unit, including the effects of deferred taxes. These members considered that using a post-tax discount rate would not necessarily reduce complexity, unless implemented as a practical expedient.

Members noted the content of the draft feedback statement to be published by the EFRAG Secretariat.