Draft minutes of the meeting of

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

held in Brussels on 22 February 2017

Present

Representatives of standard setters:	Gerhard Prachner	AFRAC – Austria
	Václav Tittelbach	MoF – Czech Republic
	Jan Peter Larsen	FSR – Denmark
	Alberto Giussani	OIC – Italy
	Airi Aleliūnaitė	The Authority of Audit and Accounting – Lithuania
	Kristina Volodkovic	The Authority of Audit and Accounting – Lithuania
	Peter Sampers	DASB – The Netherlands
	Cees Van Geffen	DASB – The Netherlands
	Erlend Kvaal	NASB – Norway
	Lubomir Kucera	Slovak Finance Ministry
	Maria Dolores Urrea Sandoval	ICAC – Spain
	Mikael Scheja	SFRB – Sweden
	Reto Eberle	Swiss Standard Setter
	Annette Davis	FRC – UK
EFRAG TEG:	Andrew Watchman	EFRAG TEG Chairman
	Nicklas Grip	EFRAG TEG Vice-Chairman
	Phil Aspin	EFRAG TEG Member
	Christian Chiarasini	EFRAG TEG Member
	Geert Ewalts	EFRAG TEG Member
	Günther Gebhardt	EFRAG TEG Member
	Heinz Hense	EFRAG TEG Member
	Sven Morich	EFRAG TEG Member
	Søren Kok Olsen	EFRAG TEG Member
	Nicolas de Paillerets	EFRAG TEG Member
	Serge Pattyn	EFRAG TEG Member
	Andrew Spooner	EFRAG TEG Member
	Cédric Tonnerre	EFRAG TEG Member
	Ambrogio Virgilio	EFRAG TEG Member
Observers:	Alessandro d'Eri	ESMA
	Erik van der Plaats	European Commission
	Michelle Sansom	IASB
EFRAG Secretariat:	Patricia McBride	EFRAG Technical Director
	Filippo Poli	EFRAG Research Director
	Saskia Slomp	EFRAG Governance Director
	Filipe Alves	EFRAG Advanced Technical Manager
	Didier Andries	EFRAG Senior Technical Manager
	Isabel Batista	EFRAG Senior Technical Manager
	Ioanna Chatzieffraimidou	EFRAG Technical Manager
	Bruno Gomes	EFRAG Technical Manager
	Hocine Kebli	EFRAG Senior Technical Manager

Joachim Jacobs	EFRAG Technical Manager
Rasmus Sommer	EFRAG Senior Technical Manager
Albert Steyn	EFRAG Technical Manager
Vincent van Caloen	EFRAG Technical Manager

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Wednesday, 22 February 2017

CLOSED SESSION

Welcome and apologies

1 Andrew Watchman opened the meeting and welcomed the participants.

Approval of the minutes

2 As there were no comments from the members, the minutes of the 23 November 2016 EFRAG TEG-CFSS meeting were approved.

EFRAG Update

3 Andrew Watchman reported that since the last EFRAG TEG-CFSS meeting the EFRAG Board had approved EFRAG's strategy 2017-2020, which included EFRAG's desire to broaden the membership base. The budget for 2017 had been approved, but they were still awaiting confirmation that the European Commission grant would be extended. The General Assembly had approved Andreas Barckow as the EFRAG Board Vice-President and in that capacity he would chair the technical discussions of the EFRAG Board. The first EFRAG Board rotation was due to start shortly and the outcome of the EFRAG TEG rotation had been announced early this year.

4 EFRAG's draft endorsement advice for IFRS 16 had been released the previous week; it had reached a positive tentative conclusion on both the technical criteria and on European public good in the IAS Regulation. It was open for comment until 13 March. He explained that the preliminary consultation document that had been released in 2016 had not included a complete analysis of EFRAG's conclusions on the European public good aspects. An economic study that EFRAG had commissioned from an independent economic consultant would be published during the consultation period.

5 The draft endorsement advice on IFRIC 22 and on the 2014-16 package of proposed annual improvements was open for comment until 17 March. The draft endorsement advice on amendments to IAS 40, dealing with transfers of investment property, was open for comment until 20 March.

6 On the amendments to IFRS 4, EFRAG had delivered a positive endorsement advice to the European Commission.

7 On IFRS 17, his understanding was that the standard would be published in May. He expected that the endorsement advice would require some form of impact assessment but that it would be of a different nature to the one undertaken for IFRS 16. The approach under development involved detailed case studies and field-testing with a sample of European insurance companies.

8 A draft comment letter on the annual improvements 2015-17 was open for comment until early April.

9 The call for applications for the EFRAG Rate-regulated Activities Working Group closed earlier that week. In addition, EFRAG was in the process of setting up a Pension Plans Advisory Panel. A proposal for this Panel would be discussed at the EFRAG TEG meeting the following day.

10 On publications, EFRAG had published its findings of EFRAG's outreach on banks' interest rate risk management. EFRAG would present the high level findings to IFASS and to ASAF to give preliminary indications as to what it might imply for the future development of an accounting solution for dynamic risk management.

IASB/IFRS IC Update

11 Michelle Sansom reported that the IASB had held two webinars specifically for national standard setters earlier that week. She was interested in receiving feedback on those webinars.

12 She noted that the following documents had been issued by the IASB since the last EFRAG TEG-CFSS meeting: the annual improvements cycle 2014-16; IFRIC 22; amendments to IAS 40; the exposure draft on annual improvements 2015-17; and taxonomy updates.

13 She reported that the following documents would be issued by the IASB in the next quarter: the final interpretation on IFRIC 23 on the uncertainty over income tax treatments; amendments to IFRS 8, a result of the feedback on the post-implementation review of IFRS 8; an amendment to IFRS 9, a narrow scope amendment on symmetric pre-payment options with a short comment period to make it available before the effective date of IFRS 9; an exposure draft on amendments to IAS 8 to address the distinction between a change in an accounting policy and a change in an accounting estimate; an exposure draft on amendments to IAS 16 that addressed pre-production sales to be recognised in P&L and not against property, plant and equipment; and the IASB was likely to issue a discussion paper on the principles of disclosure and an exposure draft on the definition of material.

14 She noted that IFRS 17 was likely to be published towards the end of May. She reported that the IASB staff had been busy with quality control and oversight in order to produce a high quality document.

15 On the Conceptual Framework project, the IASB staff was asking the IASB Board for permission to start the balloting process and therefore they should see the revised Conceptual Framework later in 2017.

16 On the Disclosure Initiative project, they hoped to publish the final practice statement on materiality later in 2017.

17 The rate-regulated activities project was moving forward and the IASB would start to make tentative decisions.

18 On the post-implementation review of IFRS 13, the IASB had decided on the request for views, which would be focused on areas that had been identified in the pre-stage of the outreach. The IASB staff would ask for permission to draft the document at the February IASB meeting.

19 With reference to the IASB's research agenda, there was a focus on the primary financial statements project, dynamic risk management and FICE. On FICE, it was expected that there would be a discussion paper towards the end of 2017; some illustrative examples would be brought to ASAF that were intended for the discussion paper.

EC Update

20 Erik van der Plaats introduced himself as the new IFRS coordinator at the European Commission.

21 On EFRAG's financing, he did not want to pre-empt the decision of the European Parliament but he would be surprised if the funding was not approved.

22 With reference to the Transparency Directive, he noted the concern about how the electronic structured financial reporting would be audited. On country-by-country reporting, he noted concerns about the progress that could be made because there was a question of whether the proper legal basis had been used.

23 With reference to the Panama Papers, the Parliamentary Committee had issued some recommendations and was working on other recommendations, mainly on the role of intermediaries such as auditors and lawyers in respect of tax evasion.

24 On non-financial reporting, the European Commission was checking the transposition of the Directive by member states; only 18 member states had notified the European Commission that they had transposed the Directive. The European Commission was supposed to have issued non-binding guidelines on the disclosure of non-financial information; however, they had been delayed because the FASB had become active in this area and the European Commission wanted to take this on board. The guidelines were expected to be issued by the end of the second quarter.

25 He reported that there was a high-level expert group on sustainable finance as well as a European Commission working group. Accounting had been mentioned as one of the important issues to do with sustainable finance, in particular the use of fair value accounting.

26 On the amendments to IFRS 4, he stated that no decision had been taken on the possible extension of the scope that had been discussed in the January ARC meeting. Following the meeting, the European Commission had asked member states to submit their positions. He noted that IFRS 16 was well on track. On timing, he advised that the endorsement of the amendments to IFRS 4 may be delayed until May/June because of the recess period of the European Parliament.

27 Sven Morich sought confirmation that the first step for IFRS Taxonomy in 2020 was primary financial statements and that disclosure would be the next step. Erik van der Plaats replied that the scope of application, according to the Directive, was listed companies, and that for the financial year 2020 and the system of electronic reporting one would only have to put primary financial statements into the system. The idea was that the IFRS Taxonomy would be used with a topping up in some areas, yet to be decided, and with some more granularity on how assets were reported. It was envisaged that the electronic system would be made available on the website.

28 Sven Morich noted his interest in the field-testing being carried out by ESMA and how EFRAG could contribute to the process. Alessandro D'Eri confirmed that ESMA had commissioned a study on the European Single Electronic Format and that ESMA actively wanted to increase interaction with EFRAG on this issue; there was the intention to present to EFRAG TEG and the EFRAG Board.

29 Annette Davis observed that there was a proposal for a regulation for the Lisbonisation of the ARC. She sought more detail on the timing and how the process would work. Erik van der Plaats replied that the Council had to work on achieving a general approach and the European Parliament on a separate track would work on

possible amendments. They had to still consider the implications for the ARC. He noted how the European Banking Committee had lost its voting power and became an expert group. The formal voting of the ARC would disappear and would be substituted for something that would allow substantial discussions to take place.

30 On the issue of harmonising and standardising taxation within Europe, Heinz Hense noted that there had been preliminary statements on what the standardised basis should be. He asked for more detail on this issue. Erik van der Plaats responded that the issue concerned DG TAXUD rather than DG FISMA. He was not aware that much progress had been made on this issue because unanimity was required.

ESMA Update

31 Alessandro D'Eri reported that ESMA had issued the Q&As on alternative performance measures in January. They had yet to receive feedback on whether there were additional questions and therefore did not anticipate having to do more Q&As on this matter.

32 He noted that ESMA would closely monitor financial statements in terms of what was being disclosed in terms of IFRS 9 impacts and would look at the interim financial statements in 2017.

OPEN SESSION

IASB Projects *Principles of Disclosure* and *Materiality*

Objective

33 To provide an update on the IASB's recent activities in the Principles of Disclosure and Materiality projects and to discuss possible activities that could be conducted by EFRAG in association with National Standard Setters.

Discussion

Paper 06-01

34 Hocine Kebli presented paper 06-01, an issues paper on the principles of disclosure and materiality. He highlighted the IASB decision to separately expose an exposure draft on materiality and the possible forms of outreach that had been outlined in the ASAF agenda paper. He asked if EFRAG TEG-CFSS members had already considered specific activities in relation to the principles of disclosure discussion paper or materiality exposure draft consultations and if EFRAG TEG-CFSS members were interested in co-hosting an outreach event in their jurisdiction in relation to the principles of disclosure discussion paper or materiality exposure draft.

35 Airi Aleliūnaitė noted that Lithuania was interested in co-hosting an outreach event. Recently the Authority of Audit and Accounting had initiated financial statements quality research and had found that there were problems with the disclosures in the notes; many entities did not disclose material amounts. In addition, they had questions on the limits of materiality. They would be interested in helping to organise an event in Lithuania this year.

36 Søren Kok Olsen stated that the issue had been discussed and they thought it would be a good idea to have an outreach event in Denmark. He suggested that a good date would be at the same time as the event for awarding the prize for the best annual report of the year, which was given out at the beginning of September.

37 Peter Sampers noted that there had been some tentative discussions on outreach in the Netherlands, perhaps for an event in June. Principles of disclosure would be interesting as a subject; he recommended a focus on the principle-based nature of the project and reflect back on the work that has been done on disclosure overload and reducing disclosure burdens. It would be interesting to see if the discussion paper would be principles-based and whether it would help in reducing disclosure overload. He noted that the DASB would be in touch with EFRAG and the IASB. Andrew Watchman agreed that there was a need to step back and see if the perceived original objectives of the disclosure initiative were being achieved.

38 Sven Morich stated that the ASCG was still thinking about it but that it was likely that they would do something. There had been discussions with the Institute of Chartered Accountants on whether they could do something jointly.

39 Andrew Watchman wondered if there were any initial reactions to the expected revised proposal to redefine materiality. He wondered whether it would be easy to enforce the concept whether information had been obscured or not.

40 Alberto Giussani noted that the concept of obscuring was too vague. There were a lot of disclosures that had to be provided and by default tended to obscure information. In addition, the concept may lead to a lot of claims and problems in their jurisdiction.

41 Mikael Scheja questioned if the materiality practice statement should come out before the definition had been debated; he did not see that as a workable way forward.

42 Hocine Kebli noted that the intention of the IASB was not to substantively change the definition but only to clarify because the term obscuring already existed in IAS 1. It was not anticipated by the IASB that a change would make the practice statement obsolete.

43 Andrew Watchman commented that his understanding was for the IASB to press ahead with the practice statement and depending on the outcome of the possible revision of the definition to consider the need for later changes.

44 Christian Chiarasini noted that it was always difficult to determine what was obscure and was the reader's incompetence. He agreed that it would open the way to litigation on a large scale. He recommended the IASB not using the word 'obscure' in the definition because of the far-reaching consequences that could not be evaluated upfront.

45 Andrew Watchman observed that the proposed revised definition no longer described whether a misstatement was material, but instead whether information was material. He noted that it was not black or white whether information was material or not; the extent to which it was wrong should also be part of the determination.

46 Erlend Kvaal noted that it had been written as advice from the IASB to preparers; the disclosures' principles aspect was missing.

47 Andrew Watchman summarised that some points were raised around the term obscuring in the revised definition of materiality and some potential volunteers had been identified for co-hosting an outreach event.

IASB Research Project *Financial Instruments with Characteristics of Equity*

Objective

48 To discuss with the EFRAG TEG-CFSS members the illustrative examples developed by the IASB Staff and the potential practical implications of the Gamma Approach that will be included in the forthcoming Discussion Paper on the Financial Instruments with Characteristics of Equity ('FICE') research project.

Discussion

Paper 07-02

49 Filipe Alves presented paper 07-02 on the potential practical implications of the Gamma approach that the IASB is developing. He sought confirmation on whether EFRAG TEG-CFSS members considered that the examples demonstrated the application of the approach to be included in the discussion paper, and asked if EFRAG TEG-CFSS members had any other suggestions to make the examples more useful.

50 Nicklas Grip noted that in general he liked the Gamma Approach, however the difficulty was related to fact that with simple examples one could reach a conclusion. But if an entity combined different instruments, such as shares redeemable at fair value with a floor, then it would be more difficult to conclude on the classification. More specifically, he questioned whether an entity should consider the probability associated with redeeming at the floor amount. He referred to Tier 1 instruments that were convertible and they may or may not be at fair value; it depended on the facts and circumstances at conversion date. Therefore, he questioned whether it should be fixed at day one or reassessed during the life of the contract. It was important to go into the compound instruments with a lot of options.

51 Filipe Alves stated that although the IASB did not want to start from a blank sheet of paper, the IASB had been creating a completely new language for the Gamma Approach. One of the concerns that EFRAG Secretariat had raised was that the IASB should apply the new model to a lot of instruments, including compound instruments, to avoid unintended consequences.

52 Andrew Watchman noted that a previous decision by the IASB was to retain the fixed-for-fixed notion from IAS 32. However, under the Gamma Approach, both the foreign currency denominated written option and foreign currency denominated convertible bond failed the fixed-for-fixed test. He questioned why the argumentation had changed.

53 Filipe Alves responded that the IASB was bringing in a stronger form of the fixed-for-fixed notion. There was an exception in paragraph 16 of IAS 32 that said although it was a fixed amount in a foreign currency for a fixed number of shares, it was not actually fixed-for-fixed because the foreign currency was variable; it could be seen as a variable for fixed. It seemed that the IASB was thinking about removing the exception. The wording referred to "solely dependent on the residual amount". For example, the final strike price could be linked to the value of the shares; however, at the date of settlement, one would not pay CU 100 but CY 110 because 100 would be linked to the strike price defined at the beginning of the contract and 10 to the variability of foreign currency. The settlement amount would partly depend on the foreign currency effects and the amount which was dependent on the residual. Only if it was solely dependent on the residual would it be a fixed-for-fixed.

54 Andrew Spooner noted that it failed the equity test because of the foreign currency effects. However, he questioned about the interest rate effects and credit rate effects. It seemed that those effects did not impact classification. Thus, he questioned why foreign currency was given as a problem. The value of a currency for the investor could change but the absolute consideration that the investor was giving to the company was fixed. Under IAS 32, if the entity was going to receive a fixed amount of cash for a fixed amount of shares, the entity knew exactly how much it was going to receive. He noted that a middle ground was being introduced with the Gamma Approach whereby they would have to work out what 'independent' and 'partly independent' meant and then there was the remeasurement to OCI. On the non-redeemable preference shares, where the entity had the choice to pay the coupon, he queried why because the coupon was a fixed in amount the instrument was treated as a liability; alternatively, if the instrument had been linked to a share price then there would have been a different answer.

55 He agreed that equity was the residual but for him the choice feature was fundamental. This was because if the issuer had the choice to pay, then the issuer would be taking the residual risk of the entity. For him, the absolute amount was not the key feature for classification but whether the entity had the ability to pay. On the example, he considered that the coupon was dependent on the residual amount. His view was that a lot of the derivatives that were classified as equity should not be in equity because they exhibited obligations only; they were not a residual interest in the entity but contracts for future exchange of equity or cash linked to equity.

56 Günther Gebhardt sought clarification on foreign currency denominated written options. The instrument seemed to be a derivative, however he was not sure whether it was scoped out of IFRS 9. If it was a derivative, then changes in fair value should be in profit or loss and not in OCI. He struggled with the concept of being related to the residual amount.

57 Filipe Alves explained that when one received the premium from the instrument, if it met the fixed-for-fixed condition, one would recognise the premium as equity and future changes in the fair value within equity would not be recognised; however, if it did not meet the fixed-for-fixed condition, it would be a derivative at fair value and measured at fair value under IFRS 9.

58 Sven Morich questioned why the fixed-for-fixed part was not just an equity instrument where the embedded part covered the extra foreign exchange risk, which was a liability with fair value changes through profit or loss. The qualitative assessment was based on the functional currencies and therefore different subsidiaries of a group may come to different conclusions depending on their functional currency. He struggled with whether there should be an "all or nothing" approach or a compound approach that analysed the two elements separately; he preferred the compound approach. On the language used in the paper, he observed that 'not independent of' in paragraph 2 was not necessarily the same as 'solely dependent on'.

59 Filipe Alves explained that paragraph 2 was the basis of the definition for equity and liability. Subsequently the IASB had discussed the sub-classes of liabilities and used the wording 'if the liabilities were dependent on the residual'. The IASB had also discussed derivative instruments separately and concluded that it needed to refine the criteria and started to use "solely dependent on the residual". The EFRAG Secretariat had been struggling with how to present in a simple way all these differences.

60 Alberto Giussani noted that it was difficult to form a view about the examples because they were incomplete. He wanted to know the criteria before he reached a conclusion

on whether it was a better presentation. He would also like to know whether there should be recycling and if so, when and how.

61 Filipe Alves summarised that if the claim depended solely on the value of the shares, such as for the shares redeemable at fair value, then changes in the carrying amount of the liability would be presented in OCI. But when the total amount was only partially dependent on the residual then the criteria, as stated in the IASB Update, was limited to specific types of derivatives such as foreign currency exposure under certain circumstances. The criteria would be developed more in the future. Alberto Giussani thought that it would be helpful to have more details on the criteria.

62 Christian Chiarasini commented that he did not see any conceptual link between the definition on page 1 and the fixed-for-fixed notion. He explained he had always struggled with the arguments included in the Basis for Conclusions in IAS 32 to explain the equity accounting for fixed-for-fixed transactions. In his view, the definition of equity under the Gamma Approach only referred to liquidation and not to the fixed-for-fixed. The IASB should work on establishing a link, if possible.

63 Ambrogio Virgilio sought clarification on the rationale for the conclusion reached in relation to non-redeemable cumulative preference shares. He assumed the current classification according to IAS 32 was supported by the Conceptual Framework and therefore he did not understand how they could change the conclusion based on the Exposure Draft on the Conceptual Framework; unless the IASB was planning to revisit the Conceptual Framework in the future. For example, the residual was not defined in the Conceptual Framework but was very important to the classification of financial instruments. If they modified slightly the fact pattern reported, for example, if the settlement amount was linked to the residual, he questioned if there would be an equity classification or liability classification. He agreed with Christian Chiarasini that there was a need for additional clarity.

64 Geert Ewalts noted that, from reading the ASAF agenda paper, it seemed that entities had to apply the separate presentation requirements, for the presentation in OCI, when the amount depended solely on residual amounts. However, he had also noted that the IASB had included a reference to separate presentation when certain criteria were met. Therefore, he questioned how the separate presentation and use of OCI should be used. He added that for some instruments one may not be obliged to pay the interest if you are below a certain amount of solvency and this could have impact on classification. On the embedded derivatives, he understood the conclusions but it was possible to have counter-arguments; it was not yet possible to understand the presentation requirements.

65 Filipe Alves noted that for a written call option where the strike price was denominated in a foreign currency, the variable was not leverage etc, then the separate presentation requirements would apply. However, if the strike price was indexed to a commodity such as gold, because there was not a foreign currency element, the separate presentation requirements would not apply.

66 Andrew Watchman summarised that the feeling of those present was that clarity was not evident. With reference to written put options, he referred to the slide presentation which stated that identifying the underlying rationale involved discussion about why put options written on equity instruments should be grossed up. According to the example, the accounting was the same under IAS 32 and the Gamma Approach and a liability would be recognised. It was an exception to the normal derivative accounting, which was net, and an exception to the fixed-for-fixed rule. He wondered if there was a new debate about the rationale for gross accounting for written puts.

67 Filipe Alves replied that when the IASB had developed the models they looked at the classification to see the classification was the same regardless of how the instruments had been combined. They kept the redemption amount to avoid having entities combining different instruments which would lead to a similar economic result but with different accounting.

68 Andrew Spooner noted that if an entity had a puttable share, then that entity would have a liability for the obligation to acquire own shares if the holder exercised its option. In a call option, the gross accounting would represent a receivable and credit to equity; however, this was not what IAS 32 required and therefore there was asymmetric prudence.

69 Nicolas de Paillerets highly recommended IASB agenda paper 5C because it had helped him to understand the thought process of the IASB staff on FICE.

70 On the topic of residual amount, Nicklas Grip stated that it was very important to define when an amount was solely dependent on the residual. Interest varied over time which meant that there was a value change during the life of the contract that was independent of the residual amount. In addition, there was the volatility factor that created a change in the value of the derivative contract during its life; currency exchange rates was not the only factor to consider in what made a derivative price partly independent of the price of the underlying entity. It was only at liquidation that it was true, but then it had to be decided whether it was the residual value when the derivative contract was settled or at liquidation.

71 Andrew Watchman wondered whether non-redeemable, non-cumulative preference shares that had a fixed claim on liquidation would be a liability component under the Gamma Approach. He asked how they would discount claims on liquidation.

72 Nicklas Grip noted that on the non-redeemable cumulative preference shares it seemed that it was only the accumulated dividend that would be paid at liquidation; it seemed that it was not connected at all to the residual value of the entity.

73 Heinz Hense suggested that it should be made clearer what the residual was and what it referred to in the non-redeemable cumulative preference shares example. There could be a situation where the defined amount had to be paid only in the case of liquidation but it would still limit the claims of other stakeholders, such as bondholders; there could be situations where this would result in insolvency and all claims would be reduced. If it was phrased in a way that the claim was limited to what was left at the end but not limiting what bondholders received then he could not see why it should not be classed as equity.

74 Alberto Giussani wanted to know how a perpetual bond would be classified under the Gamma approach. Filipe Alves responded that if one could not defer the coupon indefinitely then the obligation to pay the coupon was a liability.

75 Søren Kok Olsen noted that for hybrid bonds it was possible to defer payment of the interest as long as dividends were not paid to other shareholders. There were a lot of hybrid bonds in Denmark and it would affect all the banks in Denmark dramatically if there was a sudden change from being equity to becoming liabilities.

76 Sven Morich supported the conclusion on the non-redeemable cumulative preference shares. It was clear that there was a contractual obligation that there was some sort of residual plus fixed interest which he would deem as a liability. He struggled with the grossing up aspects of written puts, even if it was not likely that

the holder would exercise its option. However, for any other similar sort of transaction, they were considered as executory contracts.

77 Andrew Watchman summarised that the messages for the ASAF were: that the examples needed to be made more complete with more complex fact patterns considered; it was not clear how some of the outcomes linked to the basic model from a conceptual point of view; some members supported more radical thinking around the classification of derivatives; and there were mixed views on whether the focus on amount payable at liquidation was appropriate.

IASB Project *Symmetric Prepayment Options* (Amendments to IFRS 9)

Objective

78 To provide an overview of the IASB tentative decisions on the forthcoming narrow-scope amendment to IFRS 9 *Financial Instruments* related to symmetric prepayment options and obtain EFRAG TEG-CFSS members' initial views on these decisions.

Discussion

Paper 08-01

79 Ioanna Chatzieffraimidou presented paper 08-01, an issues paper on IFRS 9 Amendments: Symmetric Prepayment Options. She sought to understand if financial instruments with symmetric prepayment options were common in EFRAG TEG-CFSS members' respective jurisdictions; she asked if EFRAG TEG-CFSS members agreed with the IASB's view that amortised cost provided useful information for such instruments and if they supported an effective date later than 1 January 2018 but with retrospective application.

80 Andrew Spooner confirmed that financial instruments with symmetric prepayment options existed in the UK. However, he was not sure that it was common. It afforded the bank the ability to not suffer the reinvestment loss. It was more of an issue in Switzerland. He thought that it did provide useful information. The IASB had already identified that they would not permit pre-payments at fair value, which was worthy of further debate. On timing, the fundamental question was how the amendment was described because if it was described as a change to the standard then there would be a problem in that an entity would not be able to apply a change that it would like to apply; slightly softer language may help issuers in Europe.

81 Peter Sampers noted that so far they had been unable to find that it was an issue in the Netherlands. He accepted that it happened in certain jurisdictions but it was not common. He noted that they were looking at a very detailed regulation for an issue that was not common and therefore he was reluctant to say it was the right way forward. It would be helpful if the IASB concluded that there were different ways of interpreting the effects at this moment in time.

82 Sven Morich noted that it was clear that it should work with the slight amendment. It was not being sold as a change but rather a clarification of the wording. In Germany there were not many examples but it was quite common to have special termination principles as an option or as a forced termination where certain compensation had to be paid. He questioned the starting point of when the interest rate had increased and there was no additional compensation issue but there was still talk of unpaid principal and interest.

83 Andrew Watchman noted that he had read the ASAF paper as saying that negative compensation was not consistent with the basic lending arrangement which underpins SPPI and so the IASB has proposed an exception. It would be more straightforward for Europe if the position could be classified as a clarification rather than as an exception.

84 Søren Kok Olsen reported that the instrument was not common in Denmark and therefore not a change that would be relevant in Denmark. He agreed with the changes suggested by the IASB but thought it was unfortunate that a standard should have to be changed before it became effective; it did not reflect well on the standard-setting process.

85 Ambrogio Virgilio noted that the issue not common in Italy. He questioned why there was a need to satisfy the reasonable additional compensation criterion if the condition was that the option has insignificant value at inception. It was an exception.

86 Andrew Spooner commented that the additional amount on top was the fair value differential of the remaining interest. The question was whether a pre-payment option should be based on the fair value of interest or just the accrual of interest. He suggested that the inclusion of ‘reasonable’ was to avoid including additional compensation above that and was not to do with the interest differential. In practice borrowers often had the right to prepay but it was often discounted at a very low curve.

87 Andrew Watchman noted that his understanding in practice was that in the context of an asymmetric prepayment option nobody could be forced to pay any compensation; it was the choice of the borrower. If it was in the contract then it must be reasonable or there would not be agreement on it. The argument was not so convincing for a symmetric prepayment option.

88 Heinz Hense stated that it was very important to understand the implication of the existing interpretation. His interpretation was that historic cost accounting would only be permissible if the termination situation was agreed upfront and reflected the situation at the inception of the credit arrangement and not result in a fair value settlement. It did not matter if the options were symmetric or asymmetric; the key point was if they reflected the historic situation at the inception of the credit arrangement. It was not a big change to what already existed.

89 Andrew Watchman commented that there had been an attempt to accommodate different types of instruments that were in jurisdictions’ basic lending arrangements. It was an appropriate approach but it was important not to risk unintended consequences.

90 Didier Andries wanted to know if the circumstances were such that negative compensation was seen as representing principal and interest and these amounts became part of the net interest margin and the bank hedged its accounting to the interest margin whether these amounts behaved economically as a reverse floater. He asked for thoughts on whether these negative amounts should be seen as negative interest or not.

91 Andrew Spooner noted it represented an outcome of amortised cost measurement and that if it resulted in a credit on liability then it was not negative interest but a remeasurement from amortised cost measurement. It was a remeasurement from the application of the effective interest rate.

92 Nicklas Grip stated that he agreed with the interpretation of IFRS in this respect but looking at performance measurement it was not really the same thing. It was obvious that the compensation paid or received was for the change in interest rates that had taken place; the assumption was that the cash received would be lent again in a different interest rate environment. It would be reasonable to amortise the net interest income.

93 Nicolas de Paillerets wondered how the borrower accounted for such an instrument when forced to pay more than expected of the nominal interest that was agreed on. He was concerned by the type of accounting that would not reflect the associated risk until the event arrived. He wanted to understand why the borrower would accept conditions that allowed the lender to request an unexpected payment at any time.

94 Andrew Spooner noted that borrower accounting would not change because it only affected the asset side. In practice when the embedded derivative was separated it would not have any value because it was a right to redeem debt at market price; from the valuation perspective it was not seen in the accounts. It was a good argument to support why the IASB was doing what it was doing. The problem with embedded derivative guidance was that there were rules to separate and not separate and then there was an accounting construct about what was separated; however, in this context what would be separated was the right to redeem at market price and therefore there would be no intrinsic value to it in the financial statements.

95 Nicolas de Paillerets wondered if it would be a current debt always because you would be unable to control the duration of the loan. Andrew Spooner replied that it depended on the intent if it was the issuer’s option. If it was the lender’s option then the borrower would have a current liability because they could be forced to repay the debt at any point.

96 Nicolas de Paillerets stated that the fact that this kind of accounting existed called into the question the accounting in the borrower’s books.

97 Sven Morich noted that the amendment was about classification and not measurement. On this aspect the changes were fine. On compensation, his understanding was that usually the payment was not more than the principal plus accumulated future interest. His expectation was that it would always be a negative difference between the contractual interest and the current market environment.

98 Andrew Watchman summarised that the group view was that they were aware that the issue was commonplace in Switzerland but not particularly common in EU countries. There did not seem to be any objections to trying to accommodate what would be a basic lending instrument in certain jurisdictions.

IASB Exposure Draft *Conceptual Framework for Financial Reporting*

Objective

99 In order to enable EFRAG TEG-CFSS members to provide their input on the topics to be discussed at the March 2017 ASAF meeting, the EFRAG Secretariat consulted EFRAG CFSS members on topics by email on 27 January 2017. The purpose of this session was to discuss the messages received and decide which topics should be brought forward.

Discussion

Paper 09-01

100 Rasmus Sommer introduced paper 09-01, an issues paper on comments on the Conceptual Framework for the March 2017 ASAF meeting.

101 On materiality, Rasmus Sommer asked if EFRAG TEG-CFSS considered that the current revision of the Conceptual Framework should include additional guidance on materiality or, alternatively, if the forthcoming practice statement was likely to provide sufficient guidance.

102 Serge Pattyn noted that there was confusion from the user perspective about what the IASB was doing on materiality.

103 On measurement uncertainty, Rasmus Sommer wanted to know if EFRAG TEG-CFSS wanted to re-open the discussion and consider whether measurement uncertainty should be described as a factor that in addition to faithful representation would affect relevance.

104 There were no comments.

105 Rasmus Sommer asked if EFRAG TEG-CFSS was concerned that the description of a reporting entity could result in entities having to prepare general combined financial statements, outside parent-subsidiary relationships, without having any standard on the issue.

106 Søren Kok Olsen noted that he was concerned that there was no guidance in respect of the reporting entity. The requirements were different in different jurisdictions and yet they all had to be in compliance with IFRS; it was a major problem.

107 Christian Chiarasini stated that there needed to be a designated body that would establish what the accounts should be. He questioned how it would be possible to apply IFRS 10 if there was no body with the responsibility to prepare the accounts and establish the date of the financial statements. In a normal company the responsibility lay with the board of directors.

108 Sven Morich supported the framework but suggested that some clarification on what was a reporting entity, if it was the parent company or if it was always the single entity definition when they talked about combined statements.

109 Andrew Watchman interpreted the wording as saying that a reporting entity could be a combination of entities that were not defined by a parent-subsidiary relationship or could be a portion of a legal entity. Step one was to identify the entity that prepared the report and step two for a parent company was to apply IFRS 10. It was essentially facilitative. There was an argument to include criteria on the boundary issue in that a boundary should only be allowed to be set in such a way that there was a reasonable and objective basis to decide the assets, liabilities, income and expense of whatever was inside the boundary. If there was a need for more detailed guidance on how to prepare combined financial statements or carve-outs then that would be a separate piece of work.

110 Günther Gebhardt noted that subordination was not necessarily by a reporting entity or by a listed company. Unilever and Royal Dutch Shell had boards that ran two separate legal entities. He suggested that the Conceptual Framework should be broader.

111 Ambrogio Virgilio noted that in Italy combined financial statements were required by law.

112 Lubomir Kucera questioned when a reporting entity could only be part of an entity. He thought that it was impossible. Andrew Watchman responded that the type of carve-out where it was a portion of legal entities could often be seen in an IPO prospectus. Lubomir Kucera countered that this was not part of an entity but rather a group of assets. Andrew Watchman replied that it might be a division and then there was the question of how to allocate certain items on either side of the boundary of that division.

113 Sven Morich noted that they needed a robust definition on what was the reporting entity in order to determine what equity was. It was also important from the perspective of performance reporting in relation to minority interests.

114 Christian Chiarasini suggested that more work was needed to arrive at a proposition that was workable in practice because he did not see how he would apply the definition to determine a reporting entity. The suggested definition was circular. It was important to clarify the issue because there were many practical implications.

115 Andrew Watchman noted that the regulatory requirements created a reporting entity in a legal sense; the IASB was trying to enable that to happen without providing guidance on how to do it.

116 Peter Sampers commented that they should be careful about what they were trying to define in the Conceptual Framework. There were practical issues but they were not in general purpose financial statements; it was in special purpose financial statements to an extent that those issues arose. He urged against widening the debate.

117 Andrew Watchman noted that if the Conceptual Framework contemplated that a carve-out could be a reporting entity, in effect it was saying that it was possible for a carve-out to be a set of general purpose financial statements. Peter Sampers responded that if that was the case then it was more a question of how to define general purpose financial statements rather than a reporting entity.

118 On definition of a liability, Rasmus Sommer asked if EFRAG TEG-CFSS was concerned about the potential implications of the new definition of a liability and the supporting guidance.

119 Erlend Kvaal questioned why a past event, as stated in paragraph 29, should be an activity by the entity rather than something that occurred outside of the entity, for example an accident on the entity's property that made it liable.

120 Sven Morich noted that he struggled with what they could do at this stage because he was not sure they would improve the situation with new proposals. They should keep in mind that some of the problems that arose could be fixed with a measurement exercise, for example levies.

121 Andrew Watchman noted that the IASB had acknowledged that some of the issues would have to be discussed at standards level.

122 Serge Pattyn observed that at some point they needed to conclude on the issue of what was a liability, knowing that the situation would not be perfect. It did not make sense to restart further analysis time and time again.

123 Cédric Tonnerre agreed that they should not elaborate further on the definition of a liability because there was no real change in the current assessment based on the new definition.

124 Christian Chiarasini noted that based upon the definition it was possible to arrive at two different accountings.

125 Søren Kok Olsen suggested a paper to explain what exactly had changed in substance compared to the old Conceptual Framework, the rationale for those changes and the practical consequences in general and for the standard in the long run.

126 On the liabilities definition, Andrew Watchman expected the only thing to change would be the point at which certain levies gave rise to a liability, but there would be some work at standards level. He advised that it was a guide for the IASB in drafting future standards, and if and until those standards were aligned with the Conceptual Framework then nothing would change at all, except at the margins.

127 Serge Pattyn commented that he expected the IASB would produce a document to explain the changes in the Conceptual Framework.

128 Rasmus Sommer noted that the IASB staff had prepared a paper about the effects of the revised Conceptual Framework. However, the IASB staff was not able to provide many conclusions, as the revised Conceptual Framework would require the IASB to make assessments and judgements in many cases, which the IASB staff could not predict.

129 On executory contracts, Rasmus Sommer asked if EFRAG TEG-CFSS was concerned about the potential implications of the guidance on executory contracts.

130 Peter Sampers noted the DASB's concern that the boundary seemed to shift from a recognition boundary to a measurement boundary, which could have consequences that had yet to be thought through.

131 With reference to paragraph 35, Günther Gebhardt disagreed with the statement that 'the right and the obligation to exchange economic resources are interdependent and cannot be separated' because in most cases they could be separated. Derivatives consisted of two legs that could easily be separated economically by applying a hedge on either leg. He noted that if you bought a car, you would have the obligation to pay and the right to receive the car.

132 Patricia McBride clarified that with the right to buy the car, that right could be sold to someone else and therefore you would still have the obligation to pay but you had another contract where you had disposed of the right to receive.

133 Andrew Watchman stated that it was a transfer.

134 Sven Morich noted that if he considered IFRS 15 then usually the net contract asset or liability was usually a conglomerate of some rights and obligations, some that have been performed, some that have been paid, and the net position would be the net asset, which was the idea described in the paper. The starting point should be that rights and obligations had equal value and therefore the assumption was that the net asset would be measured at zero when neither party had performed anything.

135 Andrew Spooner was not sure what difference it would make because at a standards level one would either decide to recognise something or not, and to gross up or not.

136 Christian Chiarasini recommended that the paragraph on executory contracts should be deleted because there was now a paragraph in the Conceptual Framework that dealt with the unit of account and therefore it was irrelevant and confusing.

137 Andrew Spooner clarified that he believed that the theory of executory contracts was important but whether one recorded something was a standards level issue.

138 Andrew Watchman noted that the text permitted the IASB to make standards level decisions about recognising executory contracts about gross or net presentation and about measurement, but it did not force the IASB's hand in any way.

139 Günther Gebhardt commented that he thought that the legs of an executory contract would meet the definitions of assets and liabilities and should therefore be recognised on the balance sheet.

140 Sven Morich suggested that the executory contract section could be combined with the unit of account section or the measurement section in the Conceptual Framework.

141 Mikael Scheja noted that the real conceptual issue concerned was whether assets and liabilities in certain circumstances should be presented net.

142 Andrew Watchman summarised that it was a complex issue and that they could live with the words as they stood but that there was more work to be done in the future.

143 Sven Morich advised that the framework said that rights and obligations might give rise to only one asset or liability, which could be called netting but they needed to be very careful of the terms used.

144 On recognition, Rasmus Sommer asked if EFRAG TEG-CFSS was concerned with the IASB's tentative decisions of removing the probability threshold for recognition and instead provide more direction on the recognition of assets and liabilities with a low probability of inflows or outflows of economic benefits.

145 There were no comments.

146 Rasmus Sommer wanted to know if EFRAG TEG-CFSS considered that the Conceptual Framework needed to describe the statement of cash flows in the chapter on presentation and disclosure.

147 Peter Sampers noted that the DASB thought that the statement of cash flows was an important statement and that in some situations it might be even more important than the other primary statements. Banks and insurance companies may come to a different conclusion but that should not be the generalised conclusion.

148 Søren Kok Olsen agreed with the points made by Peter Sampers. He did not understand why the statement of cash flows was excluded from the framework.

149 Günther Gebhardt and Serge Pattyn agreed with the points made on this issue.

150 Andrew Watchman summarised that EFRAG TEG-CFSS wanted to retain the reference to the statement of cash flows.

151 Rasmus Sommer asked if EFRAG TEG-CFSS had any concerns with stating that the statement of profit or loss was the primary source of information about an entity's financial performance for the period.

152 Serge Pattyn noted that he could live with the idea that P&L was the primary source of information because it gave a signal that OCI plus P&L threw some light on the issue of performance, even though it was not very clear.

153 Peter Sampers suggested that in order to come to a sensible conclusion on the primary source of information then one would have to go into performance reporting.

154 Cédric Tonnerre did not have a problem with saying that P&L was the primary source of information on performance for the period. He thought that while profit or loss could reflect the performance of the period, OCI could provide information of performance that might be related to other periods. The profit or loss would therefore not reflect all performance. Liquidity management and asset liability management were also a matter of performance. This was better depicted in the balance sheet than in the P&L. The P&L was not the only source of information but it was the primary one.

155 Günther Gebhardt could not support saying in the Conceptual Framework that a subset of revenues and expenses was the primary source of financial performance without having clear guidance on what was in and what was not in.

156 Andrew Watchman noted that the EFRAG position was to agree that the statement of profit or loss was the primary source of information.

157 Sven Morich commented that the intention was that what was in P&L should be more beneficial for cash flow projection than OCI components. More was needed in comprehensive income and perhaps a separate position was required for those items because they were less relevant for the cash flow projection.

158 Erlend Kvaal suggested that they read the proposal as an admission by the IASB that the important elements should be in P&L.

159 On recycling, Rasmus Sommer asked if EFRAG TEG-CFSS considered that the Conceptual Framework should include a clear direction on whether all items reported in OCI should be recycled or not.

160 Günther Gebhardt noted that over the life of an entity the performance would be the cash the entity had produced minus the initial investment. To reflect this, they should recycle everything if profit or loss was the performance indicator.

161 Cédric Tonnerre stated that the difference between P&L and OCI also may be seen as the the difference between current performance and performance generally. He agreed with Günther Gebhardt on his points about recycling. It was a very important point that recycling was necessary. He had difficulty in accepting that there may be some departure, except temporarily under IFRS 9 on equity instruments.

162 Serge Pattyn suggested that there should be a rebuttable presumption that OCI items were recycled. However, if the recycling did not provide information about the performance, it did not make sense.

163 Cédric Tonnerre noted that the Exposure Draft on the review of the Conceptual Framework for financial reporting had stated that if there would be no clear basis for identifying the period in which recycling would enhance the relevance of the information in the statement of profit or loss, this could indicate that the income or expense should not be included in OCI in the first place. The IASB had, however, decided not to include this statement in the revised Conceptual Framework.

164 On the issue of the measurement basis, Rasmus Sommer asked if EFRAG TEG-CFSS was concerned that the final guidance in the Conceptual Framework on the selection of a measurement basis would be too favourable towards a current measurement basis.

165 Alberto Giussani questioned the assumption that the final guidance on the selection of the measurement basis would be favourable to current measurement. Andrew Watchman responded that the perception in some quarters was that it was moving too far towards fair value. Cédric Tonnerre noted that the view in Australia was that it was moving too far towards cost.

166 Andrew Watchman summarised that there were concerns around the reporting entity, executory contracts and reference to statement of cash flows. He noted that EFRAG had written to the IASB on the subject of enhancing the discussion of the role of asymmetry.

IASB Project *Rate-regulated Activities*

Objective

167 To provide a summary of recent developments on the IASB project on Rate-regulated Activities project. At the ASAF meeting in March 2017, ASAF members will receive an update on the project.

Discussion

Paper 10-01

168 Bruno Gomes presented paper 10-01, a summary of recent developments on rate-regulated activities. He wanted to know if EFRAG TEG-CFSS had any comments on the developments in the IASB project on Rate-regulated Activities.

169 Phil Aspin asked about the timescale for the Canadian Accounting Standards Board (AcSB) to update their research and if there were plans to take it back to ASAF. Isabel Batista replied that the Canadian AcSB staff were still awaiting information and did not know at this stage.

170 Michelle Sansom noted that the Canadian AcSB was hoping to issue their research as close as possible to the issue of the discussion paper.

171 Andrew Watchman wanted to know what other industries may be captured. Isabel Batista replied that airports, railways, ferries and toll roads were possible industries. The IASB staff was trying to focus on the rights and obligations that were enforceable in rate regulation instead of on the rights and obligations that existed when the features of defined rate regulation were present such as a monopolistic environment.

172 Andrew Watchman commented that they did not know yet if being a monopoly or a quasi-monopoly would be a differentiating factor.

173 Annette Davis noted that the focus now was on the mechanism, the formal pricing network and the indicators because over time some industries became less monopolistic and, in addition, regulation developed.

IASB Project *Primary Financial Statements*

Objective

174 To discuss the scope of the IASB's research project *Primary Financial Statements*; the outcome of the research activities undertaken by the IASB and EFRAG Staff; and the key messages from the January EFRAG TEG meeting and February EFRAG User Panel meeting.

Discussion

175 Filipe Alves and Albert Steyn presented paper 11-02.

176 Nicklas Grip considered that the IASB could not develop detailed rules if the objective was not to have sector specific standards. For example, the banking industry could not exclude interest and dividends from their operating profit. There was a need for firm principles to ensure more useful information was provided to users, but this could not be done through detailed rules on how entities should present the statement of financial performance.

177 Serge Pattyn stated that he generally agreed with the tentative decisions taken by the IASB on the scope of the project. He agreed that it should focus on the statement of financial performance and statement of cash flow. However, he advocated for more standardisation in the statement of changes in equity in the future. He noted that there was valuable information in equity and other comprehensive income reserves and therefore an improvement in understandability and comparability were important for users of the financial statements. However, he was not in favour of standardised templates for the presentation of financial statements.

178 Cédric Tonnerre stated that he fully supported the project. He suggested a further discussion on the definition of performance. He noted that a principle-based approach was difficult without defining principles such as performance, other comprehensive income and profit and loss.

179 Andrew Watchman noted that the IASB's tentative decisions on the scope seemed to avoid the question of what profit or loss and other comprehensive income was. He noted that the ASAF agenda paper for February 2017 discussed better ways to communicate and improve other comprehensive income without defining other comprehensive income.

180 Mikael Scheja agreed with the point made by Cédric Tonnerre. He commented that working on an operating profit measure was not worthwhile if the IASB could not conceptually define performance. A subtotal for earnings before interest and tax was difficult enough to define.

181 He noted that defining operating profit was difficult without a good understanding of performance. In the past similar projects focused on definition of operating profit had been unsuccessful. The reconciliation of the cash flow statement with the profit and loss statement was difficult due to their conceptual difference.

182 He further noted that if industry-specific standards was not the objective, then elements should not be defined too narrowly in this project. He did not think the IASB would have success if tried to define operating profit. He noted that he was concerned that the taxonomy for digital reporting was driving the standardisation of items. He noted that this could lead to two sets of reporting: one for compliance for the digital reporting based on the taxonomy; and one for entities that wanted to report

their true performance. He preferred the current form of the financial statement presentation and would rather focus on alternative performance measures to ensure that they were reconciled, defined and explained.

183 In a response to a request for clarification by Andrew Watchman on operating profit, Mikael Scheja noted that there was a big difference between earnings before interest and tax (EBIT) and an operating profit measure.

184 Andrew Watchman commented that because so many companies had self-defined operating profit it could be argued that the IASB should try and standardise the definition of operating profit because of the lack of consistency. Mikael Scheja responded that it could be productive and worthwhile to figure out a definition for earnings before interest and tax. He confirmed again that an operating profit was too difficult to define. It would involve trying to figure out what was recurring, what was actual operations and what was under management control. It would be possible to go through the income statement and summarise it but not to define operating profit.

185 On alternative performance measures, Phil Aspin noted that it would be a big challenge to define items such as recurring, non-recurring, material and immaterial. This would involve defining an absolute versus a relative performance measure. It would be very difficult from a principles-based perspective to come up with something that worked for all entities and sectors.

186 Sven Morich noted that the key point would be to define the line items and their location and not defining the subtotal itself. He doubted that the IASB could come up with a general definition or conclusion on what was in or out of operating profit. He noted that the taxonomy was still fairly condensed in terms of the income statement and therefore it would not be possible to have an operating profit without going into the details of the disclosure items. He considered that one of the key questions of operating profit was the meaning of cost of sales. He suggested that more detail should be provided on cost of sales and the placement of foreign currency effects in the primary financial statements. Users could then define what operating profit was if you had the taxonomy in place.

187 Søren Kok Olsen supported the project and agreed with the scope in general. However, he agreed with Serge Pattyn that there was need for improvement in the statement of changes in equity to increase understandability for the users of the financial statements. On the income statement, he noted that there had been no discussion about presenting the income statement in two columns. In addition he noted that the cash flow statement could be improved. He referred to the FRC paper that contained good suggestions that should be considered for improvements to the statement of cash flows.

188 Erlend Kvaal noted that it was easier to standardise the cash flow statement than the other financial statements. However, it was important to leave freedom for reporters to choose the best way to inform users about their performance. A principle-based standard must include the higher principle of good financial reporting applied by entities. He noted that there was a big variation on where joint ventures and associates were placed in profit or loss, but that reflected the different business models entities used. On disclosures, he suggested that when a standard provides accounting policy options there should be a principle of disclosing which option was chosen and why it was chosen. He supported Mikael Scheja scepticism on the taxonomy and how it could lead to templates and too much standardisation.

189 On alternative performance measures, Heinz Hense noted that it was not enough to simply define new accounting items or disclosure requirements because preparers

would develop a strategy to get around them. It was more important to define rules of conduct in collaboration with auditors, regulators and lawmakers to change this behavioural problem. Any project that involves alternative performance measures would require a joint effort to be successful. He suggested that if entities do adjustments for unusual items, that these adjustments must be identifiable in the notes of the financial statements in the current year and subsequent years.

190 Serge Pattyn pronounced that there was a difficult balance to strike between strict IFRS rules and giving the flexibility for entities to tell their own story. The primary objective should be good communication so that an analyst could understand what the entity had done with the numbers in the financial statements. The analyst could then draw their own conclusions with the good communication they received.

191 On the definition of operating profit, Filipe Alves reported that the IFRS Interpretations Committee had difficulties in the past with defining operating activities within the statement of cash flows and that currently it was used as a residual category. He noted that defining what was non-recurring was also a difficult issue because what was non-recurring today could be recurring in the future.

192 Annette Davis noted that the comment deadline for the FRC paper on the statement of cash flows had been extended to 31 March.

193 Andrew Watchman summarised that there was overall support for the project but that it would be challenging to define operating profit. There were concerns that the further the IASB went into detail, the more pressure that would put on going down an industry-specific route for financial reporting. There was support for looking more closely at changes in equity, an ambition to improve the statement of cash flows and support for more useful guidance on alternative performance measures.

IASB Exposure Draft *Definition of a Business*

Objective

194 To seek input from EFRAG TEG-CFSS members in preparation for the March 2017 ASAF meeting on the IASB´s proposed screening test included in the IASB's Exposure Draft ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests* and also to present an initial summary of the feedback the IASB received on the proposed amendments included in the ED.

Discussion

Paper 12-02

195 Isabel Batista presented paper 12-02 and referred to the questions in paragraph 18.

196 Peter Sampers noted that the screening test could sometimes lead to misleading conclusions and therefore it should be an indicator and not necessarily a definitive test. He also felt that whilst the meaning of similar assets required some judgement, it was not necessary to provide more guidance. The DASB did not have strong feelings on deferred tax but could understand the motives for excluding it. He disagreed with the FASB's decision to retain the determinative test as he noted that that in many situations the accounting would involve judgement anyway and that introducing a very narrow definition was rules-based standard setting.

197 Nicolas de Paillerets observed that the IASB Board papers did not specify the direction the IASB staff would propose to the IASB for the project. He noted that

when he had read the comment letters of preparers and groups of preparers, he had been surprised that 30% of preparers expressed a negative view about what the proposed literature would achieve.

198 Isabel Batista advised that the IASB staff at this stage were not proposing a particular path, but would only have an initial discussion on the feedback received. Following the ASAF meeting, the IASB staff would think about recommendations to take forward.

199 Nicklas Grip agreed with Peter Sampers that the screening test could be an indicator or a rebuttable presumption but not a firm requirement. He referred to the acquisition of mortgage institutions, which would have to be accounted for as an asset deal if the screening test would be applied.

200 Vincent van Caloen wanted to know if the amendment that the FASB made in paragraph 16(c) would alleviate the problem. Nicklas Grip responded that it would not as the risks are very similar. He noted that loan-to-value was not allowed to be high for mortgage institutions in Sweden because all high credit risks were taken by the banks; it was very similar risk for similar sectors.

201 Alberto Giussani noted that it was an improvement on the current definition that was in IFRS 3. He noted that the illustrative examples helped understand the overall aim and basic principle. The OIC did not object to the screening test being determinative. His preference was for it not to be an indicator because that could lead to more room for manoeuvre and abuse.

202 Serge Pattyn referred to the example in paragraph 8 about a shopping mall and questioned whether the conclusion on passing the screening test would depend on the price paid. It could be an asset deal or a business deal and therefore the test could only be an indicator.

203 Andrew Watchman noted that although the screening test said that one way of doing it was to take the consideration and add the fair value of the liabilities, that was supposed to be a practical expedient within the screening test practical expedient; the basic principle was to take the gross fair value of the assets acquired and then see if there was a single asset or single group of similar assets that comprised substantially all of that amount. The principle of overpayment need not affect the outcome of the screening test.

204 Vincent van Caloen stated that the gross assets were intended to include synergies and other elements that could not be recognised, which may indicate that the test was not met and one would have to go through the second step and look for substantive processes.

205 Isabel Batista referred to the FASB's decision to exclude deferred tax assets and the effects of deferred tax liabilities from the gross assets acquired.

206 Sven Morich noted that the view of the ASCG was that the screening test should be a criterion but that there should be no order between the screening and the general qualitative assessment. He, personally, was in favour of the indicator route because there should not be two different assessments in parallel. The ASCG did not think that many of the illustrative examples helped to understand the test and the assessment.

207 Andrew Watchman commented that his personal view was that if the screening test did not work then it should be dropped and not repositioned in some way. He questioned how much the test helped when applied to other than trivial situations.

208 Andrew Spooner noted that the test was worth keeping if it met the IASB's objective that it was a more practical and cost efficient method. He felt that, in that case, it would be an improvement over the current guidance that was ambiguous and resulted in inconsistent treatments.

209 Ambrogio Virgilio was concerned about possible divergence from US GAAP. There was room for improvement and clarification of the current standard in line with the FASB's decisions. He welcomed the approach proposed in the exposure draft.

210 Alessandro D'Eri sought clarification on what was an indicator in the context under discussion. Does this mean establishing a hierarchy or would the test be just one of the ingredients to use as desired. It would be a problem from an enforcement point of view if there was no hierarchy and no guidance addressing conflicts between the indicator and the outcome of other tests.

211 Andrew Watchman agreed that there would be questions to answer if it were to be a rebuttable presumption on how to rebut it. He noted that if it was an indicator, there should be guidance on whether the test is mandatory or optional.

212 Vincent van Caloen noted that the presence of goodwill already existed as an indicator of a business in IFRS 3 and that this was rarely applied.

213 Isabel Batista noted that comment letters that were sent to the IASB suggested a rebuttable presumption but it seemed difficult to know in which circumstances to rebut.

214 Sven Morich referred to the principal-agent guidance in IFRS 15, where indicators were helpful in supporting the robust general concept. However, in this case, a concept was provided, in addition to a separate indicator.

215 Michelle Sansom noted that with principal and agent there was an observable relationship between two parties that could be assessed but the indicators in a definition of a business would be more on assessing the facts and circumstances and thus quite different.

216 Andrew Watchman noted that the EFRAG position was to ask the IASB to consider whether the screening test resulted in inappropriate outcomes in some circumstances and, if so, to consider ways to take pressure off it by making it an indicator or a rebuttable presumption. The general view of those present was to retain that position. There may be divergence from the FASB position but the EFRAG priority was to have the right quality from the European perspective first. Convergence was considered a nice to have, but should not dictate the outcome.

217 Isabel Batista referred to the question in paragraph 24.

218 EFRAG TEG-CFSS members did not have comments.

Agenda topics for next EFRAG TEG-CFSS meeting and close of meeting

Paper 13-01

219 Patricia McBride asked if there were other European issues that would be useful to put on the EFRAG TEG-CFSS agenda. She referred to the Lithuanian research on

the application on IFRS and asked if there were similar studies from other jurisdictions. She noted that an email would be sent out for suggestions.

220 Andrew Watchman thanked the participants for their attendance and closed the meeting.