

May 2008

Summary of the EFRAG meetings in May 2008

On Wednesday 7 May to Friday 9 May 2008 EFRAG TEG (EFRAG) held its monthly meeting and discussed:

- D24 *Customer Contributions*
- Amendment to IFRS 2 *Vesting Conditions and Cancellations*
- IASB Discussion Paper *Reducing Complexity in Reporting Financial Instruments*
- IASB/FASB Memorandum of Understanding
- IFRIC 13 *Customer Loyalty Programmes*
- PAAinE Survey of User Information Needs
- Amendments to IAS 32 and IAS 1 *Puttable Financial Instruments and Obligations Arising on Liquidation*
- Amendments to IFRS 1 and IAS 27 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Business Combinations Phase II
- The 'credit crunch'
- Annual Improvements Project 2007
- IASB Discussion Paper on Amendments to IAS 19 *Employee Benefits*

IFRIC D24 Customer Contributions

EFRAG has considered the draft Interpretation on customer contributions on several previous occasions. A draft comment letter was issued in March (see EFRAG March 2008 Update) and comments were invited by April 14th.

During this meeting, EFRAG considered the comment letters received in response to that draft letter and finalised EFRAG's response to the IFRIC.

D24 deals with cases where, for example, a builder building a new house attaches to the house water pipes and electricity cables that will be in due course connected to the networks of a water access provider and an electricity access provider respectively. That water pipe and electricity cable are what D24 calls 'customer contributions' from the builder/houseowner to the access providers. D24 notes that sometimes cash is contributed to the access provider, who is then obliged to acquire or construct an item of plant, property and equipment (PP&E) that it must use to provide access to a supply of goods or services to one or more customers.

In the light of the comments received, EFRAG agreed various amendments to its draft letter and approved the amended for issuance. The final comment letter was submitted on May 9th to the IFRIC.

EFRAG Update is published as a convenience for EFRAG's constituents. All conclusions reported are tentative and may be changed or modified at future meetings.

Amendment to IFRS 2 Vesting Conditions and Cancellations

In March 2008, EFRAG issued an Invitation to Comment on its assessments of the Amendment to IFRS 2 against the criteria for endorsement in the EU and of the costs and benefits of implementing the Amendment in the EU. It asked for comments by 14 April 2008.

During this meeting EFRAG members considered the comments received on the Invitation to Comment and used those comments to finalise its Effects Study Report. EFRAG also finalised its endorsement advice on the Amendment. It was decided to publish the finalised Endorsement Advice Letter together with the Effect Study Report as soon as possible after the meeting.

IASB Discussion Paper on Reducing Complexity in Reporting Financial Instruments

EFRAG considered the IASB discussion paper on reducing complexity in reporting financial instruments, which was published on 9 March 2008.

In this discussion paper the IASB is soliciting views on how to develop a less complex and more principle-based financial reporting standard for financial instruments in the long-term as well as in the medium term. The paper describes current causes of complexity in accounting for financial instruments. As a long-term solution, the discussion paper proposes that all financial instruments should be measured at fair value. However, the paper also acknowledges that other projects, such as those on financial statement presentation and how to estimate fair value, have to be completed before such a solution could be implemented. The paper also considers various intermediate approaches to improving, and reducing the complexity of, accounting for financial instruments before a longer-term solution can be achieved.

At this meeting EFRAG discussed the various intermediate approaches suggested in the paper. The comments made will be used in developing a draft EFRAG comment letter.

IASB/FASB Memorandum of Understanding

At their joint meeting in April, the IASB and FASB discussed the priorities they should attach for the next few years to the various convergence projects mentioned in the IASB/FASB Memorandum of Understanding. They also discussed possible ways of speeding up aspects of those projects so that key elements might be completed by 2011. Various tentative decisions were taken that will now be developed, in the IASB's case, into a formal technical plan. This prioritisation/possible speeding up exercise is of fundamental importance to Europe, because it will determine the IASB's work programme for the next three years; and it is important that that work programme serves the needs not only of those looking to move to IFRS but also of those already on IFRS, such as Europe.

At its May meeting EFRAG discussed the various tentative decisions that the IASB has taken to date on this issue and agreed to send the IASB a short note highlighting some matters that EFRAG believes are particularly important from a European perspective. A draft of that note is expected to be issued for public comment in due course.

IFRIC 13 Customer Loyalty Programmes

EFRAG reviewed the comment letters it had received on its Invitation to Comment on its initial assessment of the costs and benefits of implementing IFRIC 13 *Customer Loyalty Programmes* in the EU. It also considered the information it had gathered from consulting directly with a number of preparers about the issues and costs associated with the implementation of IFRIC 13. It noted that the material was generally consistent with EFRAG's initial assessment of the effects of IFRIC 13. Having considered this material, EFRAG finalised its Effects Study Report and decided to issue an Endorsement Advice Letter recommending endorsement of IFRIC 13.

PAAinE Survey of User Information Needs

One of the pro-active projects that is being undertaken through the PAAinE (Proactive Accounting Activities in Europe) initiative is a project on the Framework. The Framework Discussion Paper that the IASB issued on the Objectives of Financial Reporting made a number of unsupported assertions about the information needs of users, so it was decided that the Project Leaders should gather some information about users' information needs that might be relevant to the assertions made in the Discussion Paper. A survey was therefore carried out, and a report setting out the results of the survey will be issued in the next few weeks. At the May meeting EFRAG discussed the survey results and agreed to join in publishing the report.

Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation

EFRAG analysed the comments received from constituents on EFRAG's invitation to comment on its assessment of the amendments to IAS 32 and IAS 1 *Puttable Financial Instruments and Obligations Arising on Liquidation* and approved for issuance the endorsement advice letter and a report on the costs and benefits of implementing the amendments in the EU.

Under the version of IAS 32 that is currently endorsed, the existence of an obligation to redeem ordinary shares at the request of their holders or on liquidation which is outside the control of the entity means that the shares are treated as financial liabilities. In other words, even though the shares might be identical to ordinary shares except that the holder has the right to require the issuer to redeem the shares that has been provided in order to enable holders to dispose of its holding, the shares will be classified as financial liabilities because of the put option. It is the treatment of certain puttable shares that the amendment will change – such shares would be classified as equity if they meet certain criteria.

EFRAG has concluded that the amendment satisfies the criteria for EU endorsement and that it should be recommended for endorsement. EFRAG has also concluded that the benefits that will result from applying the amendment to IAS 32 and IAS 1 are likely to exceed the costs of doing so.

Amendments to IFRS 1 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

Since the meeting, the IASB has issued the Amendments to IFRS 1 and IAS 27 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*. In order to try to help to ensure that the endorsement process is completed prior to the amendments' effective date, EFRAG started at its May meeting to assess the amendments against the EU endorsement criteria and also started to consider the costs and benefits of implementing the amendments in the EU. The discussion will be continued by EFRAG once the amendments are published by the IASB.

Business Combinations Phase II

EFRAG continued its consideration of its draft endorsement advice and of the Effect Study work it would need to do on the revised IFRS 3 *Business Combinations* and the amended IAS 27 *Consolidated and Separate Financial Statements*. EFRAG discussed an early draft of the endorsement advice it might give on the two standards and suggested various changes to reflect better the discussions EFRAG has had recently. EFRAG also made some suggestions as to how the proposed Effect Study work might best proceed, although no decisions were taken.

The ‘credit crunch’

EFRAG discussed a paper summarising the main reports issued and recommendations made by those national and international bodies that have carried out work into the role that accounting might have had in the current market turmoil and the implications that that turmoil might have for accounting. In the light of those reports and recommendations, EFRAG considered what, if any, action it should take on the matter at the present time. It noted that the IASB has already undertaken to look, as a matter of priority, at a number of issues: consolidation, derecognition, disclosures of off-balance sheet risk including the uncertainties underlying fair value measures, and fair valuing illiquid instruments. EFRAG welcomed this undertaking. It also agreed to discuss the matter further with some of the European standard-setters before reaching any conclusions as the actions, if any, that EFRAG should take.

Annual Improvements Project 2007

At this session EFRAG discussed the expected content of the Improvements to IFRS standard (the 2007 Annual Improvements Standard)—which was subsequently issued on 22 May—and a near final draft of an Invitation to Comment on EFRAG’s assessments of the standard.

EFRAG discussed and agreed various changes to a draft text summarising its initial technical assessment of the Improvements Standard against the endorsement criteria. EFRAG agreed that the draft assessment should conclude by recommending that the standard should be endorsed for use in the EU.

EFRAG also considered the likely costs and benefits of implementing the standard in the EU, and agreed on a text describing its initial assessment of those costs and effects and its conclusion that the costs that will arise in implementing the standard are likely to be exceeded by the benefits. EFRAG’s Invitation to Comment was subsequently issued on 22 May.

IASB Discussion paper on Amendments to IAS 19 *Employee Benefits*

The IASB recently issued a discussion paper containing the Board’s preliminary views on Amendments to IAS 19 *Employee Benefits*. The main improvements the Board is considering in the discussion paper are:

- the removal of the deferred recognition and smoothing features of IAS 19, and the implications this might have for the presentation of the cost of defined benefit promises, and
- defining a new category of benefit promises—contribution-based promises—and setting out a new measurement attribute for contribution-based promises.

EFRAG will be responding to the IASB’s Invitation to Comment. Therefore, the purpose of the session was to solicit EFRAG’s views on the key amendments proposed in the discussion paper. EFRAG will continue to deliberate the amendments in forthcoming meetings.

Future meetings

The June meeting of EFRAG TEG will take place on 12 and 13 June 2008 and will be held in **Prague** (Czech Republic). The next CFSS meeting takes place on 11 June 2008 in **Prague** (Czech Republic).