

June 2011

Summary of EFRAG meetings held in June 2011

From 8 to 10 June 2011, EFRAG held its monthly meeting. The first day of the meeting was held together with the European national standard setters in EFRAG's Consultative Forum of Standard Setters (CFSS). The following topics were discussed during the monthly meeting:

- IASB new and revised standards related to *Consolidation* project – IFRS 10 *Consolidation*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, revised IAS 27 *Separate Financial Statements* and revised IAS 28 *Investments in Associates and Joint Ventures*
- IASB forthcoming Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*
- IASB forthcoming revised IAS 19 *Employee Benefits*
- European outreach on the IASB's projects on *Revenue Recognition* and *Leases*
- IASB re-deliberations in the project *Revenue from Contracts with Customers*
- IASB re-deliberations in the project *Leases*
- IASB re-deliberations in the project *Insurance Contracts*
- EFRAG Proactive project *Business Combinations under Common Control*
- EFRAG Proactive project *Disclosure Framework for the Notes to the Financial Statements*
- EFRAG Proactive project *The Role of the Business Model in Financial Reporting*
- IFRS Foundation Report of the Trustees' Strategy Review
- FEE Discussion Paper on *Combined Financial Statements*.

Highlights

Comment letters

EFRAG invited comments on its draft comment letter in response to the IFRS Foundation report of the Trustees' Strategy Review *IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade*.

EFRAG welcomes the commitment of the Trustees to coordinate the conclusions of their review with the Monitoring Board arriving at an integrated set of proposals based on the Trustees' proposed recommendations and the final decisions reached by the Monitoring Board following its consultation.

EFRAG commends the emphasis on high quality global accounting standards, transparency and the focus on adoption of IFRS rather than on convergence. However, EFRAG formulates recommendations notably focusing on the long-term investment perspective that financial reporting should adopt; defining the boundaries of financial statements; increasing Trustees' communication duties; setting the agenda after public consultation on the objectives of, and the need for, possible projects; keeping XBRL separate from the standard-setting process; and handling research activities. The comment deadline is 11 July 2011 (page 7).

IASB new and revised standards related to *Consolidation* project

IFRS 10, IFRS 11 and the revised IAS 27

EFRAG discussed with the CFSS members IFRS 10 *Consolidation*, IFRS 11 *Joint Arrangements* and the revised IAS 27 *Separate Financial Statements* in view of its initial assessment of the new and revised standards against the technical criteria for the endorsement in the European Union.

The aspects of the new and the revised standards discussed at the meeting included the definition of control, consolidation of special purpose entities, power without a majority of voting rights and potential voting rights, agent versus principal relationship, accounting for different types of joint arrangements, and joint arrangements structured through a separate vehicle that contains both a joint operation and a joint venture.

EFRAG will proceed with its initial assessment of the new and revised standards against the technical criteria for the endorsement in the European Union considering the IASB's effect analysis expected to be published shortly.

IFRS 12 and the revised IAS 28

At its June 2011 meeting, EFRAG discussed IFRS 12 *Disclosures of Interests in Other Entities*, and the revised IAS 28 *Investments in Associates and Joint Ventures* in view of its initial assessment of the new and revised standards against the technical criteria for the endorsement in the European Union.

EFRAG considered the major changes introduced by IFRS12 in relation to the disclosure requirements. EFRAG noted that the disclosure requirements appeared voluminous at first; however, acknowledged that the main objective of the additional disclosures was to address concerns, by users of financial statements, about the lack of information on group structures and associated risks, including information about unconsolidated structured entities. EFRAG gave direction to the staff in relation to which issues to focus on.

At its future meetings, EFRAG will proceed with its initial assessment of the full "package" of the new and revised standards related to *Consolidation* project against the technical criteria for the endorsement in the European Union.

IASB forthcoming Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

EFRAG held a preliminary discussion of the forthcoming Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* (the Amendments) in view of its future assessment of those against the technical criteria for endorsement in the European Union. The Amendments are expected to be finalised in June 2011.

The Amendments are expected to:

- Change the non-mandatory title of a single statement of performance from the “statement of comprehensive income” to the “statement of profit or loss and other comprehensive income” (other titles continue to be permitted);
- Require to present separately items of other comprehensive income that are reclassified subsequently to profit or loss (recyclable) and those that are not reclassified to profit or loss (non-recyclable); and
- Require to present income tax related to items of other comprehensive income that can be reclassified to profit or loss (recyclable) separately from income tax related to items of other comprehensive income that will never be reclassified, if other comprehensive income is presented before tax.

The Amendments are *not* expected to:

- Change the existing option to present an entity’s performance in two statements;
- Address the content of performance statements, i.e., what is recognised in profit or loss and what is recognised in other comprehensive income; or
- Address the recycling issues, i.e., what can be reclassified (recycled) subsequently to profit or loss and what cannot.

EFRAG was pleased that, following its recommendation, the IASB had decided to retain the option of presenting all non-owner’s changes in equity in two statements. EFRAG did not raise any significant comments in relation to the Amendments. EFRAG will proceed with the initial assessment of the Amendments against the technical criteria for endorsement in the European Union, once the Amendments are finalised by the IASB.

IASB forthcoming Revised IAS 19 *Employee Benefits*

EFRAG held a preliminary discussion of the forthcoming revised IAS 19 *Employee Benefits* (Revised IAS 19) in view of its future assessment of it against the technical criteria for endorsement in the European Union. The revised IAS 19 is expected to be finalised in June 2011.

The revised IAS 19 is expected to eliminate the “corridor approach”, and to require disaggregating the defined benefit cost into three components: service cost, finance cost and remeasurements. It is expected that service and finance costs would be recognised in profit or loss, and remeasurements would be recognised in other comprehensive income. The revised IAS 19 is also expected to require recognition of termination benefits linked to a restructuring, at the same time as the related restructuring costs are recognised. Termination benefits that are not linked to a restructuring would be recognised when they become unavoidable, i.e., the entity would no longer be able to withdraw an offer of the benefits.

EFRAG will proceed with the initial assessment of the revised IAS 19 against the technical criteria for endorsement in the European Union once it is finalised by the IASB.

European outreach on the IASB's projects on *Revenue Recognition* and *Leases*

EFRAG and CFSS members received an update on the feedback received during the European outreach on the IASB's projects on *Revenue Recognition* and *Leases*. In May 2011, EFRAG and the European National Standard Setters jointly organised meetings throughout Europe in order to inform European constituents of, and obtain their feedback on, the direction taken by the IASB in its re-deliberations on these two projects. The events focused only on those issues that had caused major concerns at the exposure draft stage and had been subsequently re-deliberated. The events were held in eight European countries, including Denmark, Finland, France, Germany, Italy, the Netherlands, Spain and the United Kingdom, and were attended by a large number of constituents. The events provided European constituents with an opportunity to influence the final outcome of the projects, and to eliminate whatever major concern remains after the re-deliberations are coming to completion. The overall feedback is highlighted below.

In relation to *Revenue Recognition*, in general, participants continued to question whether a complete overhaul of the existing standards was really needed, and some suggested that the direction taken by the IASB in the re-deliberations would bring the proposals quite close to the current requirements. On a number of issues, participants did not express their views on the tentative decisions, but used the opportunity to clarify the proposals. When participants expressed their views, they generally supported the direction of the IASB's re-deliberations, highlighting some areas requiring further refinements or supporting guidance. However, some constituents indicated that they would have to analyse the final standard more closely in order to assess how it would apply to specific circumstances.

In relation to *Leases*, similar to the *Revenue Recognition* project, on a number of issues participants did not express their views on the tentative decisions, but used the opportunity to clarify the proposals or discuss application issues. However, unlike the *Revenue Recognition* project, the new proposals on leases did not receive much support, and a large number of participants believed that it would be preferable to keep IAS 17 *Leases* rather than to proceed with the new model.

There were strong calls for re-exposure of proposals in relation to both projects.

EFRAG will meet with the IASB on 14 June 2011 to discuss the feedback received during the outreach in Europe. More details about EFRAG's recommendations to the IASB, in relation to the *Revenue Recognition* and *Leases* projects, can be found under the relevant articles below.

More details about the feedback provided by European constituents during the outreach can be found in the executive summary, which is published on EFRAG's website. In addition, EFRAG staff prepared detailed feedback statements on each event for the convenience of the European constituents. These detailed feedback statements are available on EFRAG's website, and on the websites of the respective national standard setters.

IASB re-deliberations in the project *Revenue from Contracts with Customers*

EFRAG and CFSS members received an update on the feedback received from European constituents during the outreach, in relation to the IASB's re-deliberations of the proposals included in the Exposure Draft *Revenue from Contract with Customers* (the ED), and considered recommendations to be made to the IASB.

Based on the feedback received during the outreach, EFRAG has decided to recommend the IASB to:

- Consider revising the guidance in relation to the continuous recognition of revenue to address concerns that revenue could be recognised without an entity having an established right to receive consideration subject to continued performance.
- Address outstanding concerns raised by some industries, including telecommunication and software companies.
- Highlight in the feedback statement the improvements expected from the new single standard on revenue recognition.
- Ensure sufficient and proper consultation period for the next document to be published.

During its June 2011 meeting, EFRAG also discussed the latest tentative decisions, which the IASB made in relation to onerous test; presentation and disclosure requirements, contract acquisition, and fulfilment costs. There were no significant concerns raised in relation to these tentative decisions.

EFRAG will continue to follow closely the IASB's re-deliberations.

IASB re-deliberations in the project *Leases*

EFRAG and CFSS members received an update on the feedback received from European constituents during the outreach in relation to the IASB's re-deliberations of the proposals included in the Exposure Draft *Leases* (the ED) and considered recommendations to be made to the IASB.

Based on the feedback received during the outreach, EFRAG has decided to recommend the IASB to:

- Pursue further work on setting the definition of a lease in order to scope in the standard financing transactions only. The dividing line between leases and other arrangements may be different from the dividing line between finance and operating leases in the current IAS 17.
- Retain the tentative decision to exempt short-term leases from the right of use model.

It also has decided to note to the IASB that:

- The definition of a lease is an improvement, provided that it does not cause issues in interpretation. When the definition of a lease is reworked appropriately, EFRAG tentatively supports a single right-of-use model.
- There are mixed views on the assessment of options, with some EFRAG members supporting the IASB re-deliberations and some arguing that only "non genuine" options should be taken into account in determining minimum contractual commitments.

EFRAG will continue to follow closely the IASB re-deliberations.

IASB re-deliberations in the project *Insurance Contracts*

EFRAG received an update on the IASB's re-deliberations of the proposals included in the Exposure Draft *Insurance Contracts* (the ED). EFRAG also received an update on the discussion held at the IASB Insurance Working Group in May 2011 and at the EFRAG Insurance Advisory Working Group on 9 May 2011.

EFRAG discussed the latest tentative decisions, which the IASB made in relation to this project, including the following:

- *Volatility issue* – EFRAG discussed various approaches considered by the IASB for addressing the volatility issue, but did not express a preference for a specific approach. EFRAG noted that the IASB should consider inter-linkage between the different approaches, and the interaction with other standards.
- *Scope* – the IASB has tentatively decided to retain the existing option to account for financial guarantee contracts either under the insurance standard or under the financial instruments standard. EFRAG has supported the IASB's tentative decision.
- *Initial recognition* – the IASB has tentatively decided that insurance contract assets and liabilities should be recognised when the coverage period begins. EFRAG noted that this tentative decision represented an improvement compared to the ED. The proposals in the ED were expected to require significant system changes, and the associated costs were expected to outweigh the benefits.
- *Convergence with US GAAP* – EFRAG noted that quality should come before convergence in finalising the standard, and decided recommending the IASB to be clearer as to whether this project should be part of the convergence agenda or not. It was also noted that it would not be appropriate to finalise the standard if the IASB was going to amend the standard in the near term in view of convergence with U.S. GAAP.
- *Other issues* – EFRAG has also considered the IASB's tentative decisions in relation to the definition of an insurance contract, contract boundary, cash flows, explicit risk adjustment, short-duration contracts, unbundling goods and services, reinsurance and disclosures, and did not raise any significant concerns.

EFRAG will continue to follow closely the IASB re-deliberations on this project.

EFRAG Proactive project *Business Combinations under Common Control*

EFRAG, and the national standard setter of Italy (OIC), in participation of the national standard setter of France (ANC), are continuing to work together on a proactive project on Business Combinations under Common Control. The objective of the joint session with the CFSS was to update the CFSS members on the status of the project, and to provide an opportunity to the European national standard setters to consider whether or not they would associate their organisation with the project.

No decisions were taken at this meeting.

The next step in the project is the finalisation of the Discussion Paper in view of its publication in the next quarter.

EFRAG Proactive project *Disclosure Framework for the Notes to the Financial Statements*

EFRAG received an update on the project and reviewed a very early rough draft of the forthcoming discussion paper on the *Disclosure Framework for the Notes to the Financial Statements* (the Disclosure Framework).

The discussion focused on the purpose of the notes to the financial statements. Various views were considered and debated, from having the notes to exclusively amplify and explain amounts recognised in

the primary statements over the reporting period to having the notes ensuring that primary financial statements are supplemented to the extent necessary to provide users with a full understanding of the financial position and performance of the entity. EFRAG also discussed the importance of defining well the boundary of financial statements. However, EFRAG decided that the scope of the project did not include the debate on this issue.

EFRAG has also acknowledged that materiality should play a major role in the Disclosure Framework. EFRAG noted that it would be useful to develop guidance on how to apply materiality in the context of the notes; however, it also noted that materiality is a judgment call that should consider all relevant facts and circumstances, and any guidance should avoid prescriptive rules.

The project team will proceed with the drafting of the forthcoming discussion paper and is expected to present it to the EFRAG later in the year.

EFRAG Proactive project *The Role of the Business Model in Financial Reporting*

At its June 2011 meeting, EFRAG approved the proposed ‘terms of reference’ for the Business Model Advisory Panel, and the appointment of an additional Panel member.

The first meeting of the Advisory Panel will be held on 24 June 2011.

IFRS Foundation Report of the Trustees’ Strategy Review

CFSS members received an update on the views expressed by EFRAG in its draft comment letter in response to the IFRS Foundation report of the Trustees’ Strategy Review *IFRSs as the Global Standard: Setting a Strategy for the Foundation’s Second Decade*. The draft comment letter was issued for public comment on 31 May 2011.

CFSS members supported the direction of the EFRAG’s draft comment letter on a number of issues, with a notable exception of the recommendation to focus on the long-term investment perspective that financial reporting should adopt.

The draft comment letter is available on EFRAG’s website. The comment deadline is 11 July 2011.

FEE Discussion Paper on *Combined Financial Statements*

Representatives of the Fédération des Experts-comptables Européens (Federation of European Accountants – FEE) presented to the CFSS members a Discussion Paper on *Combined Financial Statements*, which FEE issued for public comment on 7 April 2011.

The objective of the discussion paper is to enhance the public debate on the preparation of combined financial statements under IFRS. The discussion paper is available on FEE’s website. The comment deadline is 30 September 2011.