

September 2011

Summary of EFRAG meetings held in September 2011

On 2 September, EFRAG held a conference call on Business Combinations Under Common Control (BCUCC) and approved the Discussion Paper on BCUCC for public consultation, subject to drafting.

From 7 to 9 September 2011, EFRAG held its monthly meeting. The following topics were discussed during the monthly meeting:

- IASB Project *Investment Entities*
- IASB new standards – IFRS 10 *Consolidation*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*
- IASB Project *Revenue Recognition*
- IASB Project *Financial Instruments*
- IASB Project *Mandatory Effective Date of IFRS 9 Financial Instruments*
- EFRAG Proactive Project *Corporate Income Taxes*
- EFRAG Proactive Project *Users of Financial Statements*
- EFRAG Proactive Project *Separate Financial Statements*
- EFRAG Proactive Project *Business Combinations under Common Control*
- EFRAG Proactive Project *Role of the Business Model in financial reporting*

Highlights

Comment letters to the IASB

EFRAG issued its draft comment letter in response to the IASB Exposure Draft *Mandatory Effective Date of IFRS 9*.

EFRAG welcomes the IASB's decision to postpone the effective date of IFRS 9 *Financial Instruments*, but considers that the revised effective date of 1 January 2015 provides insufficient relief.

Comments on the draft comment letter are invited by 17 October 2011.

IASB project *Investment Entities*

EFRAG discussed its draft comment letter on the Exposure Draft ('ED') on *Investment Entities* which was issued by the IASB on 25 August 2011.

The ED proposes an exception from the consolidation principle in IFRS 10 *Consolidated Financial Statements* to consolidate its controlled investees for a parent entity that meets the definition of an investment entity. To qualify as an investment entity, the ED proposes six criteria that must be satisfied. EFRAG, in general, supports the exception to the consolidation principle because measuring an investment entity controlled investees at fair value provides better decision useful information for users. EFRAG is also supportive of the investment company criteria to the extent that it applies at the entity level. However, EFRAG questions whether the unit of account when applying the criteria is consistent with existing IFRS. EFRAG in its draft comment letter will raise a question to constituents to seek views on the appropriate unit of account.

The ED also proposes that if the parent of an investment entity is not itself an investment entity, it is required to consolidate all of its controlled entities, including those it controls through the investment entity. EFRAG, however is not supportive of requiring a parent, which is not an investment entity itself, to consolidate the controlled entities that it holds through subsidiaries (or branches) that are investment entities.

The ED proposes the following amendments to IAS 28 *Investments in Associates and Joint Ventures*. The most significant change to IAS 28 would replace any 'venture capital organisations, mutual funds, unit trusts and similar entities' with 'investment entity' and replace the measurement option in IAS 28 with a measurement exception that will require an investment entity to measure its investments in associates and joint ventures at fair value through profit or loss in accordance with IFRS 9. EFRAG also thinks that the IASB should carry out an impact assessment to help constituents understand any unintended consequences of applying the proposed amendment to IAS 28. This is because that it could potentially restrict the use of fair value accounting. EFRAG will ask a question to constituents to consider any potential accounting effects that the amendments to IAS 28 would have.

The draft comment letter will be next discussed at a conference call on 26 September 2011.

IASB's effect analysis for IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*

EFRAG was updated by the IASB Staff about the main conclusions of the recently issued IASB's documents Effect analysis for IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. These documents include detailed insights into the expected impacts of the new standards.

In relation to IFRS 10 and IFRS 12, the effect analysis can be found at the [IASB website](#).

In relation to IFRS 11, the effect analysis can be found at the [IASB website](#).

EFRAG will proceed with its initial assessment of the new standards against the technical criteria for endorsement in the European Union at its future meetings.

IASB re-deliberations in the project *Revenue Recognition*

At its September 2011 meeting, EFRAG held preliminary discussions in the view of the forthcoming re-exposure document on Revenue Recognition. The main issues discussed were the following:

- The consequences of a possible restriction in scope by specifying that contracts entered into with a party who is a collaborator or a partner rather than a customer would be excluded from the scope of the standard.
- How the “reasonable assurance” criterion would apply in practice and interact with the transfer principle.

EFRAG will continue its deliberations at future meetings. Currently EFRAG expects the IASB to issue an exposure draft on revenue recognition in October. EFRAG expects to publish its draft comment letter in November. The results of the field-testing of the proposals, to be performed by EFRAG in co-operation with national standard setters, will therefore not be reflected in the draft comment letter but in EFRAG’s final comment letter and in a separate feedback statement.

IASB re-deliberations in the project *IFRS 9 Financial Instruments*

EFRAG received an update on the latest developments in relation to the IASB’s redeliberations on hedge accounting, impairment, and offsetting financial assets and financial liabilities.

Members of the IASB staff provided an update on the status of the project on general hedge accounting and the changes that the Board had made to the proposals. The IASB aims to publish a ballot draft by the end of the year. So far no decisions have been taken in relation to macro-hedging.

The IASB staff also presented to EFRAG the key concepts of the new approach that the IASB and the FASB are developing on impairment. This approach incorporates the feedback received on their Supplementary Document with the aim of reflecting the deterioration or improvement in the credit quality of financial assets. The Board plans to issue a review draft or a re-exposure in the fourth quarter of 2011.

EFRAG discussed the progress made by the IASB on its offsetting project. EFRAG did not take any decisions at this meeting.

EFRAG Draft Comment Letter on IASB ED *Mandatory Effective date of IFRS 9*

EFRAG discussed and approved its draft comment letter for the IASB Exposure Draft *Mandatory Effective date of IFRS 9*. The Exposure Draft proposes to postpone to 1 January 2015 the mandatory

effective date of IFRS 9 and to confirm the requirement to present comparative information for entities that initially apply the standard for reporting periods beginning on or after 1 January 2012.

The draft comment letter supports the Board's decision to postpone the effective date of IFRS 9 *Financial Instruments*, but considers that the revised effective date of 1 January 2015 provides insufficient relief. EFRAG believes that, rather than setting a fixed effective date, it would be more appropriate to allow entities at least three years, from the date on which both the last phase of IFRS 9 and the new standard on insurance contracts have been published, to implement IFRS 9.

The draft comment letter is available on EFRAG's website. The comment deadline is 17 October 2011.

EFRAG Proactive project *Corporate Income Taxes*

EFRAG discussed a near-final draft of the Discussion Paper on *Corporate Income Taxes* for public consultation. The Discussion Paper was approved subject to drafting to reflect comments made by EFRAG during this meeting and to consider additional comments made by the German Accounting Standards Board (GASB) at its recent meeting and further comments that might be noted by the Accounting Standards Board (ASB) at their meeting the next day.

It is expected that the Discussion Paper will be published in the coming months.

EFRAG Proactive project *Users of Financial Statements*

In June 2011 EFRAG PRC decided that a study on capital providers' use of financial statements should be initiated. At its September 2011 meeting, EFRAG TEG had an initial discussion about the project. It was considered important to agree on what type of output the study should result in. This includes the more specific objectives, the contribution of the project and the scope on the project. In relation to the scope it should for example be decided what capital providers to consider.

EFRAG Proactive project *Separate Financial Statements*

EFRAG discussed the core topics related to the new proactive project on separate financial statements under IFRS, which it added to its agenda in June 2011. The objective of this project is to determine whether IFRS is fit-for-purpose in satisfying the information needs of users of separate financial statements.

EFRAG Proactive project *Business Combinations under Common Control*

During its meeting, held by public conference call on 2 September 2011, EFRAG approved the Discussion Paper on *Business Combinations under Common Control* for public consultation, subject to some future drafting.

In its meeting on 7 September, EFRAG reviewed drafting changes proposed by EFRAG staff following directions provided in the 2 September conference call.

The Discussion Paper is expected to be published in September 2011.

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

EFRAG discussed a high level outline of a discussion paper for the first phase of the project that aims to explore the meaning of the term ‘business model’ by those that use the term. EFRAG provided input to the staff for content to be included in the discussion paper. A later phase will focus on what role the business model should play in financial reporting.

EFRAG also discussed the objective of the upcoming Business Model Advisory Panel meetings that are scheduled in October.