

June/July 2014

Summary of EFRAG Technical Expert Group (TEG) meeting

On 24 June 2014 EFRAG TEG held a conference call to approve a draft comment letter in response to the IASB Discussion Paper *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging*.

On 3 July 2014 EFRAG TEG held a conference call to discuss the IASB Exposure Draft *Investment Entities: Applying the Consolidation Exemption (Proposed amendments to IFRS 10 and LAS 28)*.

From 14-16 July 2014 EFRAG TEG held its monthly meeting. The following topics were discussed:

- IASB Discussion Paper *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging*
- IFRS 15 *Revenue from Contracts with Customers*
- IASB Publication *Agriculture: Bearer Plants (Amendments to LAS 16 and LAS 41)*
- IASB Project *Annual Improvements to IFRSs (2012-2014 Cycle)*
- IASB Exposure Draft *Disclosure Initiative (Proposed Amendments to LAS 1)*
- IASB Exposure Draft *Investment Entities: Applying the Consolidation Exemption (Proposed amendments to IFRS 10 and LAS 28)*
- EFRAG/ICAC/OIC/RJ Discussion Paper *Separate Financial Statements*
- EFRAG/ANC/FRC Research Paper *The Role of the Business Model in Financial Statements*
- EFRAG Short Discussion Series Paper *Did IFRIC 21 show that LAS 37 needs to be fixed?*
- EFRAG Short Discussion Series Paper *Presentation of the reversal of acquisition 'step-ups'*
- EFRAG Short Discussion Series Paper *The equity method: a measurement basis or a one-line consolidation?*
- IASB Project *The Conceptual Framework*
- IASB Project *Insurance Contracts*
- IASB Project *Rate-regulated Activities*

Highlights

Comment letters

EFRAG published its draft comment letter in response to the IASB Discussion Paper *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging* on 1 July 2014. For more details, please see page 2.

EFRAG published its draft comment letter in response to the IASB Exposure Draft *Investment Entities: Applying the Consolidation Exemption (Proposed amendments to IFRS 10 and LAS 28)* on 21 June 2014. For more details, please see page 3.

EFRAG TEG approved a final comment letter in response to the IASB Exposure Draft *Disclosure Initiative (Proposed Amendments to LAS 1)*. It is expected to be published shortly. For more details, please see page 3.

Endorsement advice

EFRAG TEG approved an invitation to comment relating to the endorsement for use in the European Union and European Economic Area of IASB Publication *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)*. It is expected to be published soon. For more details, please see page 2.

Proactive activities

EFRAG TEG approved the EFRAG/ICAC/OIC/RJ Discussion Paper *Separate Financial Statements*. It is expected to be published soon. For more details, please see page 3.

EFRAG TEG approved the EFRAG Short Discussion Series Paper *Presentation of the reversal of acquisition 'step-ups'*. It is expected to be published soon. For more details, please see page 3.

EFRAG TEG approved the EFRAG Short Discussion Series Paper *Did IFRIC 21 show that IAS 37 needs to be fixed?* It is expected to be published soon. For more details, please see page 4.

IASB Discussion Paper *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging*

On its conference call on 24 June 2014 EFRAG TEG approved a draft comment letter in response to the Discussion Paper.

The Discussion Paper proposes a Portfolio Revaluation Approach for all an entity's risk exposures that are dynamically risk managed. In the draft comment letter EFRAG does not support this approach and calls for a return to the original aim of the project: the development of a hedge accounting solution for open portfolios.

A hedge accounting solution would mitigate the accounting mismatch inherent in a mixed measurement model where hedged items are measured at amortised cost and hedging instruments are measured at fair value. Unlike the proposed scope of the Discussion Paper, a hedge accounting solution would not override the measurement requirement in IFRS 9 *Financial Instruments* that amortised cost measurement is appropriate for some financial instruments.

Although the Discussion Paper makes welcome progress in understanding dynamic risk management processes in banks and identifying the elements of a solution that is compatible with risk management practices, EFRAG believes that further development work and field testing will be necessary before an Exposure Draft could be published.

At its July meeting EFRAG TEG discussed whether there would be ways of reducing the tracking burden inherent in the Portfolio Revaluation Approach applied to risk mitigation. Outreach with constituents will continue during the comment period, including in respect of how tracking burden could be reduced.

IFRS 15 *Revenue from Contracts with Customers*

At its July meeting, EFRAG TEG discussed the preparation of a draft endorsement advice on the standard. It was decided that an assessment of whether the issues identified in EFRAG's field tests of the 2011 Exposure Draft have been addressed in IFRS 15 should be published at the same time as a draft endorsement advice.

IASB Publication *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)*

At its July meeting, EFRAG TEG discussed a draft endorsement advice and effects study report on the standard. EFRAG's initial assessment is that the standard satisfies the technical criteria for EU endorsement and EFRAG should therefore recommend its endorsement.

IASB Project Annual Improvements to IFRSs (2012-2014 Cycle)

At its July meeting, EFRAG TEG tentatively identified the amendments that warrant particular consideration in the draft endorsement advice.

IASB Exposure Draft Disclosure Initiative (Proposed Amendments to IAS 1)

At its July meeting EFRAG TEG discussed feedback from constituents about its draft comment letter on the proposed amendments to IAS 1 and approved a final comment letter to the IASB.

In general respondents agreed with EFRAG's support for the objectives of the amendments that intend to remove perceived constraints in the structure of the primary statements, application of materiality and disclosure of significant accounting policies. However, the majority of constituents disagreed with EFRAG's suggestion that the IASB should explicitly prohibit disclosure of immaterial information in the notes because the prohibition would be impractical to apply and enforce. EFRAG has therefore modified its recommendation to the IASB, so that it no longer suggests prohibition of disclosure of immaterial information.

IASB Exposure Draft Investment Entities: Applying the Consolidation Exemption (Proposed amendments to IFRS 10 and IAS 28)

On its conference call of 3 July EFRAG TEG discussed a draft comment letter in response to the Exposure Draft.

At its July meeting EFRAG TEG approved the draft comment letter. In it EFRAG supports the proposal that confirms that the exemption from presenting consolidated financial statements in paragraph 4(a) of IFRS 10 applies to a parent entity that is a subsidiary of an investment entity. EFRAG also supports the proposed clarification on when an investment entity parent should consolidate a subsidiary that provides investment-related services instead of measuring that subsidiary at fair value. However, EFRAG expresses concerns with the rationale supporting the proposal regarding the application of the equity method to an associate that is an investment entity and did not support the proposal on the application of the equity method to a joint venture that is an investment entity.

EFRAG/ICAC/OIC/RJ Discussion Paper Separate Financial Statements

At its July meeting EFRAG TEG approved a revised draft of the Discussion Paper. *Separate Financial Statements* sets out the framework of separate financial statements in Europe, provides the key conclusions from the research activities on the information needs of users and analyses a number of financial reporting areas identified by those applying and using separate financial statements.

EFRAG/ANC/FRC Research Paper The Role of the Business Model in Financial Statements

At its July 2014 meeting, EFRAG TEG was provided with a summary of the comments received in response to the Research Paper and considered a draft of a feedback statement on the Research Paper. The feedback statement will be published following approval by all of the partners.

EFRAG Short Discussion Series Paper Presentation of the reversal of acquisition 'step-ups'

At its July meeting EFRAG TEG approved a revised version of the paper, which addresses the concerns raised by some users in relation to the effect on future performance of the fair value adjustments made to identifiable assets in business combinations in accordance with the measurement requirements of IFRS 3 *Business Combinations*. The paper discusses some approaches to provide information on the impact of subsequent reversals of these adjustments.

EFRAG Short Discussion Series Paper *Did IFRIC 21 show that IAS 37 needs to be fixed?*

At its July meeting EFRAG TEG approved a revised version of the paper, which addresses the concerns raised by some constituents on the accounting outcome under some circumstances of IFRIC 21 *Levies* and alternative approaches to solve them.

EFRAG Short Discussion Series Paper *The equity method: a measurement basis or a one-line consolidation?*

At its July meeting EFRAG TEG discussed comments received in response to the Short Discussion Series Paper. These comments indicated support for EFRAG's initiative in addressing the issue, but respondents did not generally think that explicitly viewing the equity method as a measurement basis or one-line consolidation would be helpful to assist in resolving the issues with the application of the equity method. Respondents also thought that a pure one-line consolidation view was not compatible with current IFRSs or recent conceptual thinking. Some respondents indicated conceptual concerns around treating the equity method as a pure measurement basis. Various respondents also thought that it was not appropriate to account for, and measure, investments that were economically part of an entity's operations in the same way as investments in financial instruments that are not linked to the group's operations. A feedback statement will be discussed at a future EFRAG TEG meeting.

IASB Project *The Conceptual Framework*

At its July 2014 meeting EFRAG TEG approved a feedback statement on comments received in response to the Bulletin on complexity. The feedback statement needs to be approved by all the partners involved with the Bulletin before it is published. EFRAG TEG members also considered the latest tentative decisions of the IASB in relation to the Conceptual Framework.

Some EFRAG TEG members were concerned with the tentative decisions of the IASB to include a rebuttable presumption that all income and expenses should be presented in profit or loss. Such a presumption seemed to imply that the same measurement basis could be presumed to result in the most relevant and reliable information for both assessing an entity's financial position and its performance. Those EFRAG TEG members believe that the conceptual framework should provide guidelines for future standard setting activities, not provide preconceived solutions.

IASB Project *Insurance Contracts*

At its July 2014 meeting, EFRAG TEG members received an update on the IASB's June 2014 re-deliberations and educational sessions. The re-deliberations discussed related to discount rates for long-term contracts when there are few or no observable markets, the level of aggregation and asymmetrical treatment of gains for reinsurance contracts that an entity holds. The educational sessions discussed were on contracts with participating features and the identification of underlying items. No decisions were taken.

IASB Project *Rate-regulated Activities*

At its July 2014 meeting, EFRAG TEG received an update on the outcome of the EFRAG Rate-Regulated Activities Working Group meeting held on 2 July 2014 and noted that the IASB is expected to publish a Discussion Paper in mid-September 2014. EFRAG TEG members were also asked to provide preliminary views on the IASB's recent developments on 'defined rate regulation'.

EFRAG TEG members raised a number of questions regarding the scope of the forthcoming Discussion Paper and the application of the distinguishing features, discussed within the definition of 'defined rate regulation', to the various European rate-regulated regimes.

No decisions were taken. An educational session will be held at a future EFRAG TEG meeting to

enable members to better understand the application of the distinguishing features to specific cases of rate-regulated activities in Europe.