

November 2008

## Summary of the EFRAG meetings in November 2008

From Wednesday 12 November to Friday 14 November EFRAG held its monthly meeting and discussed:

- Amendment to IAS 39 *Eligible Hedge Items*
- ED of proposed amendments to IFRS 5 *Discontinued Operations*
- ED of proposed amendments to IFRS 1 *Additional Exemptions for first-time adopters*
- IASB's DP on *Financial Statement Presentation*
- IASB project on *Consolidations*
- IASB project on *Related Party Disclosures* (State-Controlled Entities)
- IASB project on *Revenue Recognition*
- PAAinE Project on *Performance Reporting*
- PAAinE Project on *Asset Definition*
- IASB ED of proposed amendments to IFRS 7 *Improving Disclosures about Financial Instruments*

In between its October and November meetings, EFRAG also held a meeting by public conference call (on 31<sup>st</sup> of October) and discussed:

- ED of proposed amendments to IFRS 7 *Improving Disclosures about Financial Instruments*
- IFRIC 16 *Hedges of A Net Investment in a Foreign Operation*

### **Amendment to IAS 39 Eligible Hedge Items**

EFRAG considered the responses that it received on its Invitation to Comment on EFRAG's initial technical assessment of the Amendment to IAS 39 *Eligible Hedged Items* and on EFRAG's initial assessment of the costs and benefits of implementing the Amendment in the EU. All the responses received agreed with EFRAG's initial assessments, and no additional comments were made. In the light of this, EFRAG confirmed the conclusions of its initial assessments that the benefits of implementing the Amendment were likely to exceed the costs and that the Amendment met the EU's endorsement criteria. EFRAG's Endorsement Advice Letter and Effects Study Report on the Amendment were issued on 12 November and are available from EFRAG's website.

*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.

## ED of proposed amendments to IFRS 5 Discontinued Operations

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The IASB proposes in the ED *Discontinued Operations* to change the definition of a discontinued operation to:

- an operating segment (as defined in IFRS 8 *Operating Segments*) that has been disposed of or is classified as held for sale; or
- a business (as defined in IFRS 3 *Business Combinations*) that meets the criteria to be classified as held for sale on acquisition.

As under the existing standard (IFRS 5), an entity that has a discontinued operation shall disclose the post-tax profit or loss arising on the activities separately from other profits and losses, and is required to provide certain additional information about that post-tax profit or loss, and related cash flows. The ED is also proposes some changes to the disclosures previously required. The ED also makes clear that, although IFRS 8's 'through the eyes of management approach' is to be used to determine whether a component of an entity is a discontinued operation, that approach should not be used to determine the amounts presented; they should be determined in accordance with IFRS rather than on the basis of the figures presented to the Chief Operating Decision Maker.

At its November meeting EFRAG discussed the ED's proposals and the views expressed were broadly supportive of the proposed amendments, although some members thought defining discontinued operations in terms of operating segments could be problematic sometimes.

It is expected that EFRAG's draft comment letter will be issued for comment in late November or early December.

## ED of proposed amendments to IFRS 1 Additional Exemptions for First-time Adopters

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The objective of this proposed amendment to IFRS 1 is to include certain additional exemptions in IFRS 1 so that first-time adopters from the jurisdictions that are expected to adopt IFRS over the next few years are also able to prepare financial statements that contain high quality information that is transparent for users and comparable over all periods presented, provides a suitable starting point for accounting under IFRSs, and can be generated at a cost that does not exceed the benefits for users. The areas where additional exemptions are proposed are:

- deemed cost for oil and gas assets, and disclosures relating to those assets,
- changes in existing decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment (oil and gas assets)
- deemed cost for assets used in operations subject to rate regulation, and
- determination of whether or not an arrangement involves a lease.

EFRAG had its first discussion of the ED of proposed amendments to IFRS 1 at its October 2008 meeting. On some issues EFRAG members reached conclusions but on some other issues they asked for further information. During the November meeting EFRAG members discussed that further information and finalised its draft comment letter. EFRAG is generally supportive of the amendments proposed, but has some concerns about the industry-specific nature of the exemptions being proposed. EFRAG's draft letter has now been issued and is available from EFRAG's website. Comments on the draft are invited by 9 January 2009.

## IASB's DP Financial Statement Presentation

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During the November meeting EFRAG continued the discussion it started in October of the recently issued IASB/FASB discussion paper *Preliminary Views on Financial Statement Presentation*. The objective of the discussion is to provide input for the EFRAG's draft comment letter on the paper.



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The discussion paper argues that any proposed new or revised presentation model should result in information being presented in the financial statements in a way that portrays a cohesive financial picture of an entity's activities, disaggregates information so that it is useful in predicting an entity's future cash flows, and helps users assess an entity's liquidity and financial flexibility. EFRAG members broadly supported these proposed objectives, although they also had a number of concerns about how the IASB proposes to implement the objectives.

The discussion paper proposes that financial statement items should be classified in all the primary financial statements into business (and within that into operating and investing), financing, income taxes, discontinued operations, other comprehensive income items (net of tax), and equity. It further proposes that:

- management should be free to classify items as it thinks appropriate (the so-called 'management approach'), as long as the classification approach is applied consistently across all the primary statements;
- classification should be done at the reportable segment level rather than at the entity level; and
- assets and liabilities should be further sub-categorised into short-term and long-term, except when a presentation by order of liquidity is more relevant. Furthermore, assets and liabilities measured on different bases should be presented on separate lines in the statement of financial position.

Again, EFRAG members broadly supported these proposals, although a number of concerns were also raised. Perhaps the most significant concern was about the risk that there would be too much disaggregation on the face of the financial statements and, as a result, the key messages to be taken from the statements would be obscured.

EFRAG's discussion will continue at the December meeting, at which point it is hoped that it will be possible to issue EFRAG's draft comment letter for comment.

## **IASB project on Consolidations**

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In September EFRAG discussed an IASB staff draft of a possible exposure draft on a revised IAS 27 *Consolidations and Separate Financial Statements*. The objective in revising IAS 27 is to produce a single IFRS on consolidation that covers both special purpose vehicles and regular entities and to enhance disclosures about consolidated and non-consolidated entities. A revised IASB staff draft was discussed at IASB Roundtable on Consolidations later in the month. Since then the IASB has continued to work on the draft, with a view to issuing it as an ED by the end of the year.

During the November meeting, EFRAG discussed the latest staff draft of the proposed ED in order to provide input to IASB staff member Michael Buschhueter, who was present during the discussion, and to develop some initial thoughts for EFRAG's draft comment letter. EFRAG's discussions will continue at a later meeting.

## **IASB project on Related Party Disclosures (State-Controlled Entities)**

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In February 2007, the IASB published an exposure draft of proposed amendments to IAS 24 *Related Party Disclosures: State-controlled Entities and the Definition of a Related Party*. The ED proposed an exemption from the disclosure requirements in IAS 24 for entities that are controlled, jointly controlled or significantly influenced by a state (so called 'state-controlled entities') in relation to transactions with other state-controlled entities, as long as certain criteria were met. It also proposed a series of amendments to the definition of a related party. Having considered the responses to that ED, the IASB has decided to amend its proposals and re-expose them for comment. The current expectation is that the new ED will be issued in December. During the November meeting EFRAG discussed some of the proposals expected to be in the new ED. EFRAG's discussions will continue when the ED has been issued.

## IASB project on Revenue Recognition

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It is currently expected that the IASB and FASB will issue a joint discussion paper on revenue recognition before the end of 2008. This discussion paper should lead to a new standard on revenue recognition before the end of 2011. The purpose of this session at the November EFRAG meeting was to develop an understanding of the content of the forthcoming discussion paper and to discuss some of the main issues involved in order to provide some initial input for EFRAG's eventual comment letter on the paper. EFRAG received a presentation on the forthcoming paper from IASB Project Manager April Pitman. It heard that the discussion paper is likely to suggest that:

- revenue is recognised when an entity satisfies a performance obligation. This will be the case when control to a good has been transferred to the customer or when a service or access to a service has been provided. This means that revenue is recognised as a performance obligation is fulfilled (in a similar way to the way in which sales of goods and the provision of services are accounted for currently under IAS 18) and not for the activity of the entity itself (as under the percentage-of-completion model);
- more unbundling of contracts than at present, which would in many cases mean that revenue would be recognised earlier than it would otherwise have been;
- the performance obligations should be measured initially by reference to the contract price rather than, say, a current market exit price. That transaction price is allocated to each performance obligation on a relative stand-alone selling price basis. Hence, no revenue will arise on day one, and no revenue will be allocated to pre-contract activity or expenses; and
- this amount is not remeasured subsequently, except when the performance obligation is deemed to be onerous. The discussion paper is likely to discuss whether remeasurement is also necessary when the contract is of long duration and involves considerable uncertainty (as might be the case with, for example, an insurance contract).

EFRAG had an initial discussion of these proposals. Its discussion will continue at its December meeting.

## PAAinE project on Performance Reporting

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EFRAG is carrying out, with some help from staff of the Spanish standard-setter, a project on Performance Reporting. This work is being carried out as part of the PAAinE (Proactive Accounting Activities in Europe) initiative, which involves EFRAG and the National Standard-Setters working together on issues of importance to Europe to encourage debate within Europe and to develop European thinking.

A first paper on performance reporting was issued in November 2006. That paper highlighted the main comments that are often made for and against the current performance reporting model and analysed those comments to identify the issues underlying the comments—and in particular the issues underlying the difference of view as to whether the current model is in need of fundamental change. A second paper discussing those underlying issues is now nearing completion.

At its November meeting EFRAG considered a near-final draft of the paper and, subject to various amendments being made, approved the paper for issue. It is expected that the paper will be published around the end of the year.

## PAAinE project on Asset Definition

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Another PAAinE project that is currently being carried out is looking at the IASB and FASB's work on a revised definition of an asset. The PAAinE work is being led jointly by staff of the French Standard-setter (the CNC) and of EFRAG.

EFRAG discussed aspects of a draft paper reporting on the work carried out in October, and in the November meeting that discussion continued. The purpose of the session was to provide the staff team with advice and other input. A revised draft will now be prepared for consideration in the New Year.

## ED of amendments to IFRS 7: Improving Disclosures about Financial Instruments

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In mid-October the IASB issued, as part of its response to the issues raised by the credit crisis, an ED of proposed amendments to IFRS 7 *Improving Disclosures about Financial Instruments*. The ED proposes a number of changes to the existing fair value measurement disclosure regime. These proposed disclosures are based around a fair value measurement hierarchy that the ED would introduce. The ED also proposes some changes to the existing liquidity risk disclosures. Because of the urgency of the situation, the ED has only a 60-day comment period.

EFRAG discussed the ED at a public conference call meeting on 31 October. There was a general consensus that the fair value measurement hierarchy and the related disclosures would make fair value measurements more understandable and hence more useful. The possibility of extending the scope of the proposed sensitivity analysis disclosure to instruments that are not measured at fair value in the statement of financial position was discussed, and it was decided to raise the matter in the draft comment letter. On the changes to the liquidity risk disclosures, EFRAG members were also broadly supportive although they decided to ask for views specifically on whether, and in what circumstances, contractual maturity date liquidity risk disclosures are useful and should still be required. EFRAG issued its draft comment letter for comment in early November. Comments are invited by 4 December.

At its November meeting EFRAG had a more broadly based discussion of the proposals in the ED, in preparation for finalizing the comment letter in December. No decisions were taken.

## IFRIC 16 Hedges of a Net Investment in a Foreign Operation

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In September EFRAG issued an Invitation to Comment on its initial technical assessment of IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* and on EFRAG's initial assessment of the costs and benefits of implementing the Interpretation in the EU. At its public conference call meeting on 31 October, EFRAG considered the responses it received and finalised its assessments. EFRAG's conclusions were that the benefits of implementing IFRIC 16 were likely to exceed the costs and that the Interpretation met the EU's endorsement criteria. EFRAG's Endorsement Advice Letter and Effects Study Report on IFRIC 16 were issued on 3 November and are available from EFRAG's website.



### Future meetings

The next meeting of EFRAG TEG will take place on 11 and 12 December 2008. The next CFSS meeting takes place on 10 December 2008.