

December 2008

Summary of EFRAG meetings in December 2008

On Thursday 4 and Friday 5 December EFRAG held three short meetings by public conference call to discuss:

- Annual Improvements 2008 ED
- The Update of the Amendment to IAS 39 Reclassifications of Financial Assets: Effective Date and Transition

On Wednesday 10 December EFRAG met with the European National Standard-Setters in EFRAG's Consultative Forum of Standard-Setters to discuss:

- IASB project on Private Entities
- PAAinE project on Performance Reporting

From Wednesday 10 December to Friday 12 December EFRAG held its monthly meeting and discussed:

- ED of proposed amendments to IFRS 5 *Discontinued Operations*
- IASB's DP on *Financial Statement Presentation*
- IASB project on *Consolidations*
- ED of proposed amendments to IFRS 7 *Improving Disclosures about Financial Instruments*
- IFRIC 17 *Distributions of Non-cash Assets to Owners*
- ED of proposed amendments to IAS 33 *Simplifying Earnings per Share*
- ED of proposed amendments to IAS 24 *Relations with the State*
- IASB project on revenue recognition
- IFRIC *Transfers of Assets from Customers*

On Monday 22 December EFRAG held a meeting by public conference call to discuss:

- ED of proposed amendments to IAS 33 *Simplifying Earnings per Share*
- ED of proposed amendments to IAS 24 *Relations with the State*
- the near-final draft of an Interpretation on *Transfers of Assets from Customers*
- the process EFRAG should follow in commenting on the financial instrument-related EDs the IASB was due to issue in the Christmas period

Annual Improvements 2008 ED

During the public conference call meetings in early December, EFRAG considered the comments it received in response to its draft comment letter on the IASB's Annual Improvements 2008 ED and finalised its comment letter in the light of those comments. The finalised comment letter is available from EFRAG's website.

The Update of the Amendment to IAS 39 Reclassifications of Financial Assets: Effective Date and Transition

In late November the IASB issued an update to the amendment it made to IAS 39 in October concerning reclassifications of financial assets. The October amendment had been considered urgent and had therefore been issued by the IASB without any due process. Subsequently it had become clear that there was an ambiguity in the text relating to the effective date and transition arrangements, so the IASB issued an amendment of the text, again without any due process. During one of the early December conference calls EFRAG discussed this latest amendment.

EFRAG noted that there was time in the endorsement timetable for it to follow its normal due process in finalising its endorsement advice and its initial assessment of the cost and benefits of implementing the latest amendment in the EU.

IASB project on Private Entities

At the December 2008 CFSS meeting, a representative from the European Commission presented the thoughts of the European Commission staff in relation to an overhaul of the 4th and 7th Accounting Directives. One of the purposes of the overhaul is to reduce the accounting burden for small business. The European Commission also presented different scenarios of how the future framework for accounting legislation in Europe could look like.

Francoise Flores, co-chairwoman of EFRAG and FEE's joint working group on SMEs, then gave a presentation on the IASB's IFRS for Private Entities (PE) project. She explained the main recommendations made by EFRAG in relation to the standard and EFRAG's perceptions of users' needs in a PE environment. She also updated the meeting on the tentative decisions taken by the IASB.

It is expected that IASB will vote on the IFRS for Private Entities late in the first quarter of 2009.

PAAinE project on Performance Reporting

EFRAG is carrying out, with 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.

An initial discussion 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 the November CFSS meeting staff gave an update on the project and solicited views from European standard-setters. Standard-setters were also asked whether they were likely to wish to publish the paper when finalised. It is expected that the paper will be published in January.

ED of proposed amendments to IFRS 5 *Discontinued Operations*

EFRAG discussed a draft of its proposed comment letter on the IASB's ED *Discontinued Operations*. The ED proposes that discontinued operations should be defined in terms of operating segments and EFRAG broadly supports this approach. The ED is also proposing that disclosures should be provided in respect of all components of an entity that have been disposed of or are classified as held for sale.

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EFRAG does not support this proposed amendment because it seems inconsistent with the operating segments approach adopted for separate presentation in the income statement and is also likely to be unduly burdensome.

EFRAG's draft comment letter was subsequently issued on EFRAG's website for comment.

IASB's DP on *Financial Statement Presentation*

At its December meeting, EFRAG members again discussed the IASB/FASB discussion paper (DP) *Preliminary Views on Financial Statement Presentation*. The objective of the discussion was to gather EFRAG's thoughts on the DP so that EFRAG's draft comment letter can be finalised in January. The main proposals had been discussed at the November meeting, so in this session EFRAG discussed some of the more detailed proposals. One of those proposals that particularly concerned EFRAG member was the proposal that the statement of cash flows should be presented using the direct method. The DP argues that the direct method provides information that is more decision-useful than an indirect method. However, EFRAG members thought that both are useful, that the direct method is not necessarily more consistent with the other objectives in the DP than the indirect method, and that the direct method would generally be more costly to implement.

EFRAG will discuss the DP again at its January meeting, at which time it is hoped it will be possible to finalise EFRAG's draft comment letter.

IASB's project on Consolidations

EFRAG has discussed the IASB's project on Consolidations at several meetings now. During its December meeting, it was provided with a further update and it discussed the IASB's latest thinking. The intention is to be in a position to issue a draft comment letter on the ED at the end of January.

EFRAG will discuss the DP again at its January meeting, at which time it is hoped it will be possible to finalise EFRAG's draft comment letter.

ED of proposed amendments to IFRS 7 *Improving Disclosures about Financial Instruments*

EFRAG considered the responses it received to its draft comment letter on the IASB's ED of amendments to IFRS 7 *Financial Instruments: Disclosures*. The proposed amendments would require the use of a three level hierarchy for fair value measurement disclosures (similar to those required under US GAAP). In addition, the ED proposes enhancing the liquidity risk disclosures through modified and extended maturity analyses of financial liabilities.

In the light of the comments received, EFRAG decided that its final letter should:

- broadly agree with the proposal regarding fair value measurement disclosures, but express concern about the consistency of the fair value definition with other fair value measurement guidance. In particular, EFRAG thought the definitions of level 3 were not consistent with the cases where day-1 profit recognition was prohibited;
- argue that the liquidity risk disclosures should adopt the same approach for derivative financial liabilities as for non-derivative financial liabilities. That approach should be based on expected maturity analyses. EFRAG also suggested emphasising the need for liquidity risk disclosures for assets; and
- note that EFRAG was unsure that current and proposed liquidity risk disclosures were sufficient to meet users' information needs and suggest that the IASB should specifically address liquidity risk disclosures in a separate project.

EFRAG's final comment letter has now been issued and is available from EFRAG's website.

IFRIC 17 Distributions of Non-cash Assets to Owners

EFRAG also had an initial discussion about its draft endorsement advice on IFRIC 17 *Distributions of Non-cash Assets to Owners*. During the session, EFRAG considered the principal accounting requirements in IFRIC 17, and also whether the ‘accounting mismatch’ resulting from applying IFRIC 17 meant that the interpretation might not meet the EU endorsement criteria.

Although EFRAG members generally welcomed the changes made by the IFRIC in developing IFRIC 17, some members remained concerned about the accounting mismatch that could result. Some members also raised concerns about IFRIC 17’s requirement that, if the asset to be distributed increases in value between the date on which the distribution is approved and the date it is made, a profit should be recognised in the income statement. In their view, it was not appropriate to recognise a gain on a transfer of an asset for nil value.

EFRAG will discuss IFRIC 17 again at its January meeting. The intention is that at that meeting it will also decide what its draft endorsement advice should be and will finalise an Invitation to Comment on that draft advice and on EFRAG’s initial assessment of the costs and benefits of implementing the interpretation in the UK.

ED of proposed amendments to IAS 33 *Simplifying Earnings per Share*

In September the IASB published an exposure draft *Simplifying Earnings per Share* that proposed amendments to IAS 33 to simplify EPS and to converge its requirements with US GAAP. EFRAG issued a broadly supportive draft comment letter in October and during its December meeting it discussed the responses it received to its draft letter. EFRAG generally confirmed its position on the issues dealt with in its draft comment letter. The final letter was subsequently approved during the public conference call meeting held on 22 December. EFRAG’s comment letter is available from EFRAG’s website.

ED of proposed amendments to IAS 24 *Relations with the State*

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*. Having considered the responses to that ED, the IASB decided to amend its proposals and re-expose them for comment. During its December meeting, EFRAG discussed some of the proposals expected to be in the re-exposure draft. EFRAG member’s were generally supportive of the proposed exemption for State-Controlled Entities, but had a number of detailed comments on what is likely to be proposed.

The IASB subsequently issued the ED in mid-December. At its public conference call meeting held on 22 December EFRAG discussed that ED and finalised its draft comment letter for issue. The draft letter is now available from EFRAG’s website. Comments are invited by 6 March.

IASB project on revenue recognition

At the time of EFRAG’s December meeting, the IASB and FASB had not issued their joint discussion paper on revenue recognition. However, the main proposals the paper would contain were known and EFRAG had a discussion of those proposals at its December meeting. The Boards’ intention is that the discussion paper should lead to a new standard on revenue recognition before the end of 2011.

The main issues discussed by EFRAG were:

- whether revenue could arise outside a contract with a customer;
- how a contract should be defined;
- whether it is preferable to base revenue recognition on a single principle, and if it is what that principle should be;
- how performance obligations should be measured;
- when should a contract with a customer be deemed onerous;
- unbundling of contracts into separate performance obligations; and
- pre-contract costs.

EFRAG’s discussion on the IASB/FASB discussion paper will continue at its January 2009 meeting. EFRAG expects to issue its draft comment letter in late February.

IFRIC Transfers of Assets from Customers

In April the IFRIC issued draft Interpretation (IFRIC D24) *Customer Contributions*. IFRIC D24 addressed the accounting for transfers of items of property, plant and equipment (PPE) (or cash to construct an item of PPE) by entities that receive such transfers from their customers in exchange for a service, or the provision of ongoing access to a supply of goods or services, or both. At its November meeting the IFRIC completed its consideration of the comments received in response to IFRIC D24, and discussed whether, in the light of the significant changes it had made to the text in D24, re-exposure was necessary. It decided that, rather than re-expose, it would make a near-final draft of the Interpretation (now called *Transfers of Assets from Customers*) available on its website for longer than usual to allow time for any final comments from constituents. At its December meeting EFRAG considered a summary of what EFRAG staff expected to be in the near-final draft and considered whether, and if so how, it should respond to the draft. EFRAG's discussions continued at its public conference call meeting on 22 December, at which time it decided that it would not submit a letter based on the near-final draft.

The financial instrument-related EDs the IASB issued in the Christmas period

At its public conference call meeting on 22 December, EFRAG heard that the IASB would be issuing two exposure drafts in the Christmas period: an ED of proposed amendments to IFRS 7 *Investments in Debt Instruments* (on which comments are needed by 15 January) and an ED of proposed amendments to IFRIC 9 and IAS 39 *Embedded Derivatives* (on which comments are needed by 21 January). EFRAG discussed how best to organise its work so as to be in a position to provide the IASB with input by the comment deadlines.

EFRAG agreed that it would issue draft letters for comment, even though it would be necessary to shorten the comment periods considerably. EFRAG subsequently issued its draft letters on the two EDs at the beginning of 2009.

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