

January 2009

## Summary of EFRAG meetings in January 2009

On Thursday 15 January EFRAG held a meeting by public conference call and discussed:

- Amendment to IAS 39 and IFRS 7 *Reclassification of Financial assets: Effective Date and Transition*
- ED of proposed amendments to IFRS 7 *Investments in Debt Instruments*

From Wednesday 21 to Friday 23 January EFRAG held its monthly meetings and discussed:

- ED of proposed amendments to IFRS 5 *Discontinued Operations*
- ED of proposed amendments to IFRS 1 *Additional Exemptions for first-time adopters*
- ED 10 *Consolidated Financial Statements*
- IASB's Discussion Paper on *Financial Statements Presentation*
- IASB's Discussion Paper on *Revenue Recognition in Contracts with Customers*
- IASB project on *Income Tax*
- Restructured IFRS 1
- ED of proposed amendments to IFRIC 9 and IAS 39 *Embedded Derivatives*
- IASCF's *Constitutional Review*

### Amendment to IAS 39 and IFRS 7 Reclassification of Financial assets: Effective Date and Transition

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At its meeting on 15 January, EFRAG considered the comments it received in response to its Invitation to Comment on its initial assessments of the Amendment to IAS 39 and IFRS 7 *Reclassification of Financial assets: Effective Date and Transition*. Those assessments were first a technical assessment against the EU endorsement criteria and second an assessment of the costs and benefits likely to result from the implementation of the amendment in the EU. In the light of the comments received, EFRAG finalised its assessments and, in doing so, concluded that the amendment met the endorsement criteria. EFRAG therefore recommended to the European Commission that the amendment should be endorsed.

EFRAG has subsequently issued its endorsement advice letter and effects study report on the amendment and they are both available from EFRAG's website.

## ED of proposed amendments to IFRS 7 Investments in Debt Instruments

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On 15 January EFRAG also considered the comments it received in response to its draft comment letter on the IASB's ED of proposed amendments to IFRS 7 *Investments in Debt Instruments*. EFRAG argued in its draft letter that there was not an urgent need for the changes proposed in the ED, so the IASB did not have to move at the speed at which it was moving. EFRAG also argued that the issues involved were complex and warranted a more in-depth consideration. Respondents shared these concerns, and EFRAG decided to retain those messages in its final letter.

EFRAG has now issued its final comment letter. It is available from EFRAG's website.

## ED of proposed amendments to IFRS 5 Discontinued Operations

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In September the IASB published an exposure draft (ED) of proposed amendments to IFRS 5 *Discontinued Operations*. The ED proposed amendments that would converge the definition of a discontinued operation with US GAAP and require additional disclosures. EFRAG issued a broadly supportive draft comment letter in December and, during its January meeting, considered the responses it received regarding said draft.

- The ED proposes a new definition of 'discontinued operation' based on the notion of operating segments. EFRAG supported that proposal in its draft letter but, in light of the comments received, decided not to support the proposal in its final letter. In EFRAG's view, the definition should focus on some sort of 'major discontinuances notion'.
- In its draft letter, EFRAG expressed concern about the proposed new disclosures applying to all discontinued components, rather than just discontinued operations. This comment was retained in the final letter.

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

## ED of proposed amendments to IFRS 1 Additional Exemptions for first-time adopters

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The objective of the proposed amendments to IFRS 1 *Additional Exemptions for first-time adopters* is to make it possible for first-time adopters from jurisdictions adopting IFRSs in the near future to prepare financial statements that contain high quality information that is transparent for users and comparable over all periods presented and provides a suitable starting point for accounting under IFRS. EFRAG's draft comment letter was broadly supportive of the additional exemptions proposed. After considering the comments received in response to that draft letter during its January 2009 meeting, EFRAG decided that its final letter should also be generally supportive. The letter also raises some more detailed points. EFRAG's final comment letter has now been issued and is available from EFRAG's website.

## ED 10 Consolidated Financial Statements

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ED 10 *Consolidated Financial Statements* proposes to combine existing IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Special Purpose Entities* in a single, control-based consolidation model. The ED also proposes to enhance the disclosures to be provided for unconsolidated entities. This consolidation project has been on the IASB's agenda for some time now, but the financial crisis is giving added impetus to it.

EFRAG has already discussed the IASB's proposals on several occasions, and at its January meeting those discussions continued. EFRAG members have raised a number of concerns about the content and robustness of the proposals, and at the meeting those concerns were explored further. The intention is to try to issue a draft comment letter on the ED by mid-February.

## IASB's DP on Financial Statement Presentation

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EFRAG had a further discussion of the IASB/FASB discussion paper (DP) *'Preliminary Views on Financial Statement Presentation'* in order to provide staff with further input for EFRAG's draft comment letter. EFRAG's position is currently (broadly) as follows:

- EFRAG members support the IASB's desire to improve the presentation of the financial statements so that users can understand the relationship between items across financial statements and so that an entity's financial statements complement each other as much as possible. However, EFRAG does not believe that it follows from this cohesiveness objective that line items should be presented in the same order in each primary financial statement and should all be disaggregated to the same extent.
- EFRAG members broadly support the proposal to separate business activities from financing activities, to show discontinued operations separately, and to sub-divide the business section into operating and investing categories. They also broadly support using a management approach to categorise items.
- EFRAG members are not convinced that a sufficiently persuasive case has been made to prescribe the use of the direct method of presenting operating cash flows and to prohibit use of the indirect method.
- A number of EFRAG members are troubled by the proposal that a schedule should be provided reconciling each line of the statement of income and expenses to the statement of cash flows. In their view, the proposal will probably result in a lot of numbers being disclosed, only some of which will be useful enough to justify the cost of providing them.

EFRAG expects to issue its draft letter for comment in early February 2009.

## IASB Discussion Paper on Revenue Recognition in Contracts with Customers

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In December 2008 IASB and FASB issued a joint discussion paper *Revenue Recognition in Contracts with Customers*. The intention is that the discussion paper should lead to a new standard on revenue recognition before the end of 2011. EFRAG has discussed the proposals at several meetings in order to develop its draft comment letter. At its January meeting it discussed:

- whether a single revenue recognition principle applying to all revenue-generating transactions is preferable to several principles;
- whether revenue arises only when a performance obligation from a contract with a customer has been fulfilled or whether it can emerge as activities are carried out in order to fulfill a performance obligation arising from a contract with a customer;
- how obligations under a contract with a customer should be divided up into performance obligations. The examples specifically discussed included contracts that give the customer a right of return for any reason and sales incentives; and
- how performance obligations arising under a contract with a customer should be measured on initial recognition.

EFRAG's discussion will continue at its February meeting, and a draft letter is expected to be issued for comment in March.

## IASB project on Income Tax

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Anne McGeachin, IASB Senior Project Manager in charge of the project on income taxes, gave EFRAG members a presentation on the IASB's soon-to-be issued exposure draft (ED) on accounting for income taxes. The ED is the result of a long standing, short-term convergence project with the FASB which aims to eliminate some of the key differences between IFRS (IAS 12) and US GAAP (FAS 109) in the area of tax accounting. It also aims to clarify areas in IAS 12 that have apparently created uncertainty in practice.

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After the presentation, EFRAG discussed some of the changes being proposed to IAS 12 with the objective of providing initial input for EFRAG's draft comment letter on the ED. These discussions will continue at the February meeting.

## Restructured IFRS 1

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In November 2008 the IASB issued a revised version of IFRS 1 First-time Adoption of IFRS. The revised version's requirements are identical to the previous version's, but the standard has been restructured to make it easier to use and to update. At its January meeting EFRAG discussed its initial assessment of the revised standard against the EU endorsement criteria and its initial assessment of the costs and benefits likely to result from the implementation of the revised standard in the EU. EFRAG also approved an Invitation to Comment inviting comment on those initial assessments. The Invitation to Comment has since been issued and is available from EFRAG's website.

## ED of proposed amendments to IFRIC 9 and IAS 39 Embedded Derivatives

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The purpose of this session was for EFRAG to discuss the comments it received in response to its draft comment letter on the ED of proposed amendments to IFRIC 9 and IAS 39 *Embedded Derivatives* and to finalise EFRAG's comment letter in the light of those responses. Having considered the comments, EFRAG decided that its position in its final letter should remain largely unchanged from the draft letter; in other words, EFRAG should support the proposal that:

- an entity shall assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category;
- the assessment should be made on the basis of the circumstances that existed when the entity first became a party to the contract; and
- if an entity is unable to separate a non-closely related embedded derivative from the host contract, the entire hybrid financial instrument must not be reclassified out of the fair value through profit and loss category.

EFRAG also decided to support the effective date and the transitional provisions proposed in the ED. EFRAG's comment letter is now available from its website.

## IASCF's Constitutional Review

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In early December, the trustees of the International Accounting Standards Committee (IASC) Foundation, the body that oversees the IASB, published a consultative paper asking for suggestions as to the issues the trustees should consider in the second part of their five-yearly review of the IASC Foundation's Constitution. The EFRAG Supervisory Board will be responding to the paper, and EFRAG had a brief discussion about the constitutional review at its January meeting in order to provide the EFRAG Supervisory Board with some input.

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### Future meetings

The next meeting of EFRAG TEG will take place from 25 to 27 February 2009.