

April 2009

Summary of EFRAG meetings held in April 2009

On Wednesday 1 April 2009 EFRAG held a meeting by public conference call to discuss:

- the IASB/FASB Financial Crisis Advisory Group's request for input

On Friday 3 April 2009 EFRAG held another public conference call meeting to discuss:

- IFRS 7 *Improving Disclosures about Financial Instruments*
- the IASB's request for input on the FASB EDs on Fair Value Measurement and Impairment

On Wednesday 22 April 2009 EFRAG held a third conference call meeting to discuss:

- the IASB's request for input on the FASB EDs on Fair Value Measurement Guidance and Impairment Recognition Requirements
- the IASB discussion paper on Revenue Recognition in Contracts with a Customer

On Tuesday 28 April to Thursday 30 April EFRAG held its monthly meeting and discussed:

- the IASB discussion paper on Revenue Recognition in Contracts with a Customer
- the IASB discussion paper on Financial Statement Presentation
- the IASB ED on Income Taxes
- the IASB discussion paper on Leases
- the IASB ED on Derecognition

IASB/FASB Financial Crisis Advisory Group's request for input

At its public conference call meeting on 1 April EFRAG members considered the comments it received in response to its draft letter responding to the IASB/FASB Financial Crisis Advisory Group's (FCAG's) request for input. EFRAG members noted that some constituents were encouraging EFRAG to go further than its draft letter and state whether or not it supported the various accounting alternatives discussed in its draft letter. However, constituents expressed different views as to which alternatives should be supported. EFRAG members agreed that the issues involved were complex and needed to be analysed and discussed thoroughly before conclusions could be drawn, and more time was needed if that was to be done. After further discussion EFRAG finalised its letter and approved it for issue. The letter is 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.

IFRS 7 Improving Disclosures about Financial Instruments

In March, EFRAG had discussed a draft of a possible draft endorsement advice letter and draft effects study report. At the public conference call meeting on 3 April the drafts were approved and were subsequently issued for comment. The Invitation to Comment is available from EFRAG's website, and comments are invited until 15 May.

IASB's request for input on the FASB EDs on Fair Value Measurement Guidance and Impairment Recognition Requirements ASB

At its public conference call meeting on 3 April, EFRAG members discussed a suggested response to the IASB's request for input on the FASB EDs on Fair Value Measurement Guidance and Impairment Recognition Requirements. Subsequently a draft response was issued on EFRAG's website for comment. At the public conference call meeting on 22 April, EFRAG considered the comments received in response to its draft letter and finalised the letter. The letter can be found on our website under the project *The IASB's request for views on the FASB's proposals*.

IASB discussion paper *Revenue Recognition in Contracts with a Customer*

The IASB issued a discussion paper on revenue recognition in December 2008. The discussion paper should lead to a new standard on revenue recognition before the end of 2011. The purpose of the session at the April 2009 EFRAG meeting was to discuss a few issues relating to EFRAG's draft comment letter and then approve the issue of the draft comment letter. The issues discussed were:

- Whether a right to return a good that does not meet the specifications or does not fit for purpose would always be a performance obligation or whether the use of that right would sometimes reflect a failed sale;
- How to determine the percentage of completion in the model proposed by EFRAG for revenue recognition;
- How to account for an option that entitles the owner to buy an asset at a discount. It was discussed whether or not to recognise a performance obligation in relation to options in cases where the option was a non-onerous contract;

EFRAG's draft comment letter is now available on EFRAG's website.

IASB discussion paper *Financial Statement Presentation*

The objective of the Financial Statement Presentation session was to consider the comments EFRAG received, and if thought fit approve for issue EFRAG's final comment letter (FCL) on the IASB/FASB Discussion Paper *Preliminary Views on Financial Statement Presentation* (the DP).

The main messages from the comments could be summarised as follows:

- Constituents are broadly in favour of the proposed financial statement presentation objectives. However, they would be concerned were they to be applied in a very rigid or mechanical way and if priority would be given to the adherence to the FSP objectives rather to the basic objectives of financial reporting i.e. the provision of decision-useful information.
- Constituents generally support the 'management approach' and think that it is a right step for enhancing the provision of decision useful information, but note that it is not explained clearly what kind of management approach the DP is intending.

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- They are strongly against the proposal that the new standard should require use of the direct method of presenting operating cash flows. They are not persuaded by the DP of the merits of such an approach that would justify the additional cost that would inherently be involved. In general they prefer the indirect method of presenting operating cash flows in the statement of cash flows and think that the current presentation option should not be removed.
- None of the constituents thought that the proposed reconciliation schedule would increase users' understanding of an entity's future cash flows. Although conceptually a good thing, constituents were against the proposal mainly because it will result in lengthy note disclosures with much detailed information and that users will be faced with too many numbers that could make the financial statement less understandable. In addition, the preparers will probably be required to provide significant input and resources to provide this information

These messages are broadly in line with the positions in the EFRAG's draft letter.

IASB ED *Income Taxes*

EFRAG considered the proposals in the recently issued ED *Income Taxes* and discussed an initial draft of a possible EFRAG comment letter. Although EFRAG has discussed the expected proposals at several meetings, it had until now been working with a pre-publication draft ED. EFRAG acknowledged that the ED is the outcome of a joint short-term convergence project with the FASB, its primary objective being to reduce some of the existing differences between IFRS and US GAAP in accounting for income tax. However, EFRAG members noted that they were very reluctant to support convergence at any cost and in particular would not support changes to existing IFRS that would not, at the same time, improve financial reporting for companies that apply IFRS. EFRAG members expressed several concerns that a number of the proposals shifted the accounting for income tax towards a very rigid, rules-based environment, primarily aimed at convergence with US GAAP, without the IASB explaining in the ED why the US alternative was considered to be a better choice that would result in an improvement in accounting and would enhance usefulness of information. EFRAG members also indicated that a number of the proposals lacked underlying conceptual rationale, while other requirements in the ED lacked guidance that can be made operational to 'real life' tax scenarios in some tax jurisdictions. Overall, EFRAG members tentatively conclude that, in their view, they did not think the ED should be used as a basis to develop a new standard on Income Taxes.

IASB discussion paper on Leases

The objective was to consider the first version of a draft comment letter, which was prepared by the staff on the basis of the discussion at the March meeting.

EFRAG decided that an appendix to EFRAG's draft comment letter should be added that explains the alternative approaches to lessee accounting (the 'whole asset' approach and the 'executory contact' approach) in detail, asking constituents whether they would rather support any of the alternative approaches instead of the proposed 'right-of-use' approach.

EFRAG members acknowledged that the boards' solutions for lessee accounting are not perfect and will inevitably cause friction with other projects. They noted that a grey area between operating and financial leases exists now and wondered whether the new proposals will not just move the grey area to another place, i.e. between services and leasing.

EFRAG is comfortable with the proposed initial measurement of the obligation to pay rentals and is against an option that the lessee could elect to measure its obligation to pay rentals at fair value. They did not think the lessee's obligation to pay rentals should be remeasured to reflect changes in the lessee's incremental borrowing rate.

During the April EFRAG meeting, Christian Kusi-Yeboah, IASB Staff member, gave a presentation of the IASB's exposure draft *Derecognition*. The proposed approach keeps certain features of current IAS 39, but removes the 'risks and rewards' test from it.

EFRAG members discussed the implications of the proposed approach and concluded that the major novelty of the exposure draft would be the requirement of derecognising fungible assets transferred through sale-and-repurchase agreements (generally referred to as 'repo' transactions). EFRAG members then discussed the practical implications of derecognising repos of fungible assets, especially in terms of the understandability of banks' financial statements.

EFRAG members then discussed the elements of a possible comment letter, including the definition of a transfer, the exemptions from continuing involvement and the 'practical ability to transfer' test. No decision was taken and the discussion was scheduled to continue at the next meeting.