

June 2009

Summary of EFRAG meetings held in June 2009

On Wednesday 3 June 2009 EFRAG TEG (EFRAG) met with the European National Standard-Setters in EFRAG's Consultative Forum (CFSS) to discuss:

- the financial crisis
- replacement for IAS 39
- the European proactive project on Business Combinations under Common Control
- the IASB's discussion paper *Leases*
- the IASB's roundtables on consolidation and derecognition
- meeting with IASB to discuss convergence

On Wednesday 3 to Friday 5 June 2009 EFRAG held its monthly meeting and discussed:

- the IASB's discussion paper *Leases*
- the IASB's roundtables on consolidation and derecognition
- meeting with IASB to discuss convergence
- the IASB's ED *Income Tax*
- the IASB's ED *Derecognition*
- Amendment to IFRS 2 *Group Cash-settled Share-based Payment Transactions*
- the IASB's project on extractive industries
- IASB's annual improvements project

The financial crisis

At the June 2009 CFSS meeting, EFRAG and the European National Standard-Setters updated each other on, and discussed, recent financial crisis related activities.

Replacement for IAS 39

The IASB has announced that it intends to bring forward proposals on the impairment of financial assets and on the classification and measurement of financial assets and liabilities. It is hoped that it will be possible to issue an exposure draft on the classification and measurement part in July for comments by September 2009 so that a standard can be implemented in 2009. Regarding impairment, the intention is to issue an exposure draft by October of 2009. Also, if things go as planned, an exposure draft relating to hedging should be issued by the end of 2009 and a standard should be out in 2010. The June CFSS meeting discussed the IASB's latest thinking on these issues.

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.

The European proactive project on Business Combinations under Common Control

It was decided earlier in the year that a European proactive accounting project—formally known as PAAinE—on business combinations under common control should be carried out and that staff of the OIC, the Italian Standard Setter, should lead the project. At the June CFSS meeting, the project leaders provided an introductory presentation on the project, explaining the reasons for the initiative and the objectives of the project.

The IASB's discussion paper *Leases*

At the CFSS meeting, EFRAG staff summarised the latest draft of EFRAG's draft comment letter on the discussion paper *Leases* and asked for comments and advice from the European National Standard-setters. Later in the week, EFRAG finalised its draft letter in the light of that input. The main messages in that draft letter are that:

- EFRAG is uncomfortable that the IASB has limited its analysis to considering the lease accounting model from only one perspective (the lessees').
- EFRAG agrees with the DP that conceptually the 'right-of-use approach' should be used for all lease arrangements. However, cost-benefit implications might arise were such an approach to be applied to short-term lease arrangements, particularly if they involve non-core assets. Furthermore, EFRAG is concerned that the result of the changes proposed in the DP might be to replace one difficult border—between operating and finance leases—with another—between service arrangements and leases.
- EFRAG is divided on the DP's proposals on the treatment of options in lease agreements. Some support the DP's proposal that a components approach should not be used and that expectations as to how the options will be exercised should determine the asset and liability to be recognised. Other EFRAG members favour the adoption of either a components approach or a minimum lease payments approach.

The IASB's Roundtables on Consolidation and Derecognition

On 15 and 16 June, the IASB held some roundtables to discuss the views of its constituents on the proposals it has published on consolidation and derecognition. EFRAG will have a representative at the roundtables, and views were sought from participants at the CFSS meeting and at the subsequent EFRAG meeting as to how that representative should respond to the various issues that would be raised at the roundtables.

Meeting with IASB to discuss convergence

Normally, an EFRAG delegation (comprising representatives of EFRAG and of the standard-setters of France, Germany and the UK) meets with representatives of the IASB to discuss the IASB/FASB convergence projects every six months. However, as an additional joint IASB/FASB meeting will take place in July this year, an additional meeting with the EFRAG delegation will also take place. During the June CFSS and EFRAG TEG meetings, possible agenda items for the meeting were discussed.

IASB's ED *Income Taxes*

At its June meeting, EFRAG concluded its initial discussions on the IASB's ED *Income Tax* and decided that the overall message of its draft comment letter should be that EFRAG is not convinced that the proposals represent an improvement to existing IAS 12. EFRAG's tentative view is that certain of the proposals are rules-based and seem unlikely to result in a faithful representation of the reporting entity's tax position. EFRAG is also proposing to suggest that, if the IASB nevertheless proceeds with the proposals, it should first carry out field-testing to understand better the implications of the proposals. EFRAG approved its draft comment letter for issue and it is now available from EFRAG's website.

The IASB's ED *Derecognition*

At its meeting, EFRAG also finalised its draft comment letter on IASB's ED *Derecognition*. In doing so, EFRAG tentatively decided that its main message should be that the focus of the IASB's work on derecognition should, for the time being, be to address the crisis-related issues that have arisen and to make whatever other incremental changes can be made to the existing requirements to improve the quality of information provided and to make them easier to apply. In EFRAG's view, the approach described in the ED as the Alternative View goes far beyond that, so EFRAG is not in favour of it being considered further at this time.

EFRAG also had a number of significant reservations about the approach proposed in the ED, in particular, with regard to:

- the proposed new definition of a transfer;
- the proposal that the existing risks and rewards tests should be replaced by a continuing involvement test; and
- testing for control by asking whether the transferee has the practical ability to transfer the transferred asset to a third party.

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

Amendment to IFRS 2 *Group Cash-settled Share-based Payment Transactions*

With the publication of the Amendment to IFRS 2 *Group Cash-settled Share-based Payment Transactions* imminent, EFRAG had an initial discussion of the endorsement advice it might give on the amendment and on its possible implications in terms of costs and benefits. It was noted that the amendment clarifies group cash-settled share-based payment arrangements are within the scope of IFRS 2 and it amends the definitions of equity-settled share-based payments and cash-settled share-based payments so that they can be applied to such arrangements. EFRAG's very tentative view was that the amendment would meet the EU endorsement criteria and would not raise cost-benefit concerns.

EFRAG will finalise its initial assessments of the amendment at its July meeting, then invite comment on them.

The IASB's project on Extractive Industries

It is expected that the IASB will issue a discussion paper on extractive industries in the late-summer. With that in mind, EFRAG had an educational session on the project at its June meeting.

→

→

- The session was guided by a presentation on the major categories of items arising from extractive activities that might be assets (rights, geological information, mineral properties, development items, operational items and mineral deposits). Both the current and proposed new definitions of an asset were considered.
- The treatment of premiums paid in the acquisition of mineral properties, as well as stripping cost in pit mining, was also briefly discussed. It was debated whether such premiums were separately identifiable items that could be capitalised as assets, or whether they were indicative of the value of the underlying property.
- The deferral of stripping cost and its appropriateness was also briefly debated.

EFRAG's consideration of this project will continue at a later meeting.

The IASB's Improvements Project

In May EFRAG had an initial discussion of its assessment of the Annual improvements Standard 2008 against the EU endorsement criteria and of its assessment of the costs and benefits of implementing the standard in the EU. At the June meeting EFRAG discussed the assessments—and an Invitation to Comment on those assessments—further. A majority of EFRAG members concluded that each of the amendments met the EU endorsement criteria, although a minority did not support endorsement of the amendment to IFRS 8 because in their view it would result in a loss of relevant information. Furthermore, a majority of EFRAG members concluded that each of the amendments would result in benefits that would exceed the costs of implementation, although a minority thought that would not be the case for the amendment to IAS 36. The Invitation to Comment was approved subject to some minor amendments, and should be issued within the following weeks.