



EFRAG - TEG **UPDATE** JANUARY 2006

Summary of the EFRAG TEG meeting January 2006

On Thursday 12th January 2006, the Technical Expert Group of EFRAG (EFRAG) held its monthly meeting (on an exceptional basis it was a one-day meeting) and discussed the following topics:

- The IASB's decision to hold a public debate on measurement
- Measurement Bases for Financial Accounting—Measurement on Initial Recognition
- Fair Value Measurement Guidance
- The amendment to IAS 21
- IFRIC 7
- Revised Implementation Guidance on IFRS 4
- IFRIC D18 *Interim Financial Reporting and Impairment*
- Revenue Recognition

EFRAG noted a newspaper report that quoted Tom Jones, the Vice-Chairman of the IASB, explaining **the IASB's decision to hold a public debate on measurement**. EFRAG has for some time argued that the use in financial statements of fair value measures should not be extended until there has been a comprehensive debate about measurement. It therefore welcomed the announcement and agreed to write to the IASB to suggest some issues that could usefully be explored during the course of the debate.

EFRAG discussed the discussion paper ***Measurement Bases for Financial Accounting—Measurement on Initial Recognition***, which was prepared by staff of the Canadian standard-setter and was issued by the IASB, and a first draft of a comment letter responding to the paper. EFRAG welcomed the paper's discussion of the advantages and disadvantages of the various possible measurement bases, but found many of the arguments used to support the conclusions in the paper unconvincing. It also disagreed with a number of those conclusions. Some detailed comments were also made. It was agreed that a revised draft letter would be prepared and, as soon as it has been approved by EFRAG, issued on the EFRAG website (www.EFRAG.org) for public comment.

EFRAG discussed whether a letter should be sent to the IASB concerning its ***Fair Value Measurement Guidance*** project. EFRAG has concerns:

- with the process that is being followed. The IASB is planning to issue an exposure draft of a standard that it might not agree with, together with an invitation to comment that will highlight any concerns the IASB has. EFRAG believes that the IASB should only issue as draft standards proposals that it agrees with; and
- as to whether the IASB will address in its invitation to comment the issues that many commentators in Europe would like addressed.

Although TEG raised various concerns about the proposals in the working draft, relating in particular to its focus on estimated market exit prices and to the material on reference markets and transaction costs, it agreed that, in view of the IASB's decision to hold a public debate on measurement, EFRAG's should at this point in time be congratulating the IASB and welcoming its initiative rather than raising these concerns. EFRAG therefore agreed to continue to follow the developments in this project closely.

EFRAG discussed a draft endorsement advice letter prepared by the staff on '**The Amendment to IAS 21** *'The Effects of Changes in Foreign Exchange Rates': Net Investment in a Foreign Operation*'. The draft letter, which recommends that the Amendment should be endorsed, was approved by EFRAG. The draft has been published on the EFRAG website www.EFRAG.org and invites comments by no later than 3 February 2006. A Commission proposal on the endorsement will be discussed by the ARC in its meeting on 17 February 2006.

EFRAG discussed the letters it received in response to its draft letter recommending endorsement of **IFRIC 7** 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies'. All the comment letters supported EFRAG's draft recommendation that IFRIC 7 should be endorsed. EFRAG agreed that it should give positive endorsement advice to the European Commission. The endorsement advice letter can be downloaded from the EFRAG website www.EFRAG.org. A Commission proposal on the endorsement will be discussed by the ARC in its meeting on 17 February 2006.

EFRAG discussed the **Revised Implementation Guidance on IFRS 4** 'Insurance Contracts'. The need for this guidance has arisen because of changes to IFRS 7 made by IFRS 4. Implementation guidance is not subject to the EU's endorsement process, so EFRAG will not be issuing any endorsement advice on the material. EFRAG members did however express some concerns about the process the IASB had followed in developing the guidance because it had not been subject to any public consultation. EFRAG strongly believes that all IASB and IFRIC material should be subject to a proper due process and for that reason it would not want the publication of this guidance to be seen as setting a precedent. On the other hand, EFRAG accepts that additions, deletions and other changes need sometimes to be made to proposals subsequent to the exposure draft stage and those additions, deletions and other changes will not usually be subject to further public consultation unless they are very significant. For that reason, whether new implementation guidance needs to be subject to a due process is not an 'open and shut case'. EFRAG also recognises that the IASB tried very hard in its IFRS 7 project to make it possible for European companies to adopt IFRS 7 in their 2005 financial statements if they wished. EFRAG greatly appreciates the IASB's efforts in this regard.

The draft interpretation **IFRIC D18 Interim Financial Reporting and Impairment** was published on 12 January 2006, the day of the EFRAG meeting. The draft interpretation deals with the interaction of IAS 34 and impairment requirements of IAS 36 and IAS 39 and provides guidance as to whether IAS 36 or 39 impairment losses recognised in an interim reporting period can be reversed in the same annual reporting period should circumstances change. EFRAG had an initial discussion of the draft interpretation in order to prepare a draft comment letter. EFRAG members were undecided as to whether they support the consensus IFRIC has tentatively reached, but they did have a number of detailed comments on the draft. For example, EFRAG thinks it may be preferable to issue an amendment to IAS 34 rather than an interpretation because IAS 34 currently conflicts with IASs 36 and 39. There were also concerns about the practicability and implication of the proposal that the interpretation should be applied retrospectively.

EFRAG also received an update on its joint project with the German standard-setter on **Revenue Recognition**. It was agreed that a revised version of the discussion paper that is being worked on will be presented to EFRAG at its March 2006 meeting for discussion.

The next EFRAG meeting will take place on **13 to 15 February 2006** in Brussels.

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