



## Summary of EFRAG CFSS and TEG meeting December 2005

The EFRAG Technical Expert Group (EFRAG) met on Wednesday 7<sup>th</sup> December with the European National Standard Setters in EFRAG's Consultative Forum of Standard Setters (CFSS) and discussed the following topics:

- The current position on the endorsement of IFRS for use in Europe
- Pro-active Accounting Activities in Europe
- Consistent Application of IFRS in Europe
- Service Concession Arrangements
- Fair Value Measurement
- Management Commentary

On Thursday 8<sup>th</sup> and Friday 9<sup>th</sup> December EFRAG held its monthly meeting and discussed the following topics:

- Management Commentary
- Revenue Recognition
- IFRIC 7 *Applying IAS 29 for the first time*
- Measurement Bases for Financial Accounting—Measurement on Initial Recognition
- Fair Value Measurement

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### CFSS Meeting

The meeting received an update on **the current position on the Endorsement of IFRS for use in the EU**. It noted that the European Commission was hopeful that it would be possible to endorse the Amendment to IAS 39 *Cash Flow Hedge Accounting of Forecast Intragroup Transactions* before the end of the 2005. The remaining unendorsed material was likely to be endorsed early in 2006. That unendorsed material is:

- IFRS 7 Financial Instruments: Disclosures
- Amendment to IAS 39 Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- Amendments to IAS 39 and IFRS 4 Financial Guarantee Contracts
- Amendment to IFRS 1 and IFRS 6
- IFRIC 6 Waste Electrical and Electronic Equipment

The Commission explained that a company would be able to treat the material not endorsed by the end of 2005 as endorsed for the purpose of its 2005 financial statements as long as the material has been endorsed before the company has signed off its 2005 financial statements (and both the IASB material and the Regulation endorsing the material allow for implementation in 2005, which in this case they do).

Regular updates on the status of the endorsement process will be posted on EFRAG's website [www.EFRAG.org](http://www.EFRAG.org).

In June EFRAG and the National Standard Setters (NSS) agreed to co-ordinate some of their work on the IASB's agenda so as to enable Europe as a whole to participate more fully in the development of global standards. Participants at the CFSS meeting received an update on those co-ordinated activities. (We refer to the activities by the acronym 'PAAinE', which stands for

'Proactive Accounting Activities in Europe'.) The update focused on the latest developments regarding the four key projects that it has been decided should be carried out jointly as part of the PAAinE work:

Equity – Liability distinction

Staff of the German standard-setter (the GASB) is leading a project considering the criteria used to distinguish between equity and liabilities. A pan-European Advisory Group is being set up and is about to start its work. The intention is that the project should adopt a truly European perspective on the issue, so the GASB is very keen to receive input from all parts of Europe so that the issues involved can be better understood. The aim of the project is to develop alternative approaches but a limiting factor could prove to be the pace of the IASB/FASB work.

Conceptual Framework

Staff of the French standard-setter (the CNC) is leading a project on the conceptual framework. A pan-European Advisory Group has been set up and has had its first meeting. The papers for that meeting will be circulated to the NSS. Timing is also a concern in this project because the IASB and FASB's work is already well advanced on some issues.

Performance Reporting

This project will be led jointly by staff of the Spanish standard-setter (the ICAC) and EFRAG. A project plan is currently being developed, and an Advisory Group will then be set up.

Pensions

This project is being led by staff of the UK standard-setter (the ASB). A UK Advisory Group has been set up, along with an additional pan-European group that will participate partly through emails and partly through meetings. The UK group's first meeting is in December, and the European group is likely to meet for the first time early in 2006.

The meeting was provided with a summary of the comments received in response to the EFRAG Supervisory Board's consultation and Advisory Forum on **Consistent Application of IFRS in Europe**. A clear message of both the consultation and Forum was that Europe should not issue IFRS interpretations or guidance; nor should it set up its own urgent issues mechanism. There had been a wider range of views expressed about the suggestion that some sort of IFRIC support mechanism should be set up, but this suggestion had in any case been overtaken by events; in particular the European Commission's tentative proposal to set up a temporary Roundtable to consider implementation issues that are arising and forward those needing an interpretation to IFRIC. The EFRAG Supervisory Board has decided that it will issue a paper summarising the views received in response to its consultation and Advisory Forum, but would take no further action other than to monitor developments in this area closely.

The CFSS received an update on the recent developments at IFRIC and EFRAG on **Service Concessions Arrangements**. EFRAG's Service Concessions Arrangements Working Group met in November and exchanged views with IFRIC staff present. It was noted that there would be no final IFRIC material available by the end of 2005. The implications of this for 2005 financial statements were discussed. The working group made it clear that, even though a solution for 2005 would have to be found without IFRIC's help, Europe still believes that a comprehensive solution for service concession arrangements is needed urgently.

The IASB has recently decided to add a project on **Fair Value Measurement** to its work programme. The objective of the project is to provide guidance on how to estimate fair value. The FASB has been working on this topic for some time now and is close to issuing a final standard on the subject; it has posted a working draft of a standard on its website for information. The IASB has tentatively decided that it will issue that final standard as an IASB exposure draft. Later in the week EFRAG would be having a preliminary discussion of FASB's working draft. As preparation for that discussion, the NSS were asked for their views on the draft. The NSS were

also asked whether they thought EFRAG should write to the IASB now—before the IASB exposure draft has been issued—to highlight issues of concern to Europe. The NSS raised a number of concerns about the process that the IASB is planning to follow: a comprehensive debate on measurement is desperately needed, but those wishing to participate in the debate may be confused by the process being followed. The NSS also raised some concerns about the proposal that fair value should be the estimated market exit price. The NSS did not however have strong views on whether EFRAG should write to the IASB at this stage in the project.

To help EFRAG to finalise its draft comment letter on the **Management Commentary** discussion paper later in the week, the NSS were asked for their views on the paper and on EFRAG's initial draft letter. The NSS raised a number of concerns about the implications of any decision by the IASB to take this subject onto its agenda. Differing views were expressed as to whether, were the IASB to take the subject onto its agenda, it should issue a mandatory standard or best practice guidance.

The next meeting of the CFSS will take place on 8 March 2006.

### TEG Meeting

Following the November EFRAG meeting, an initial draft had been prepared of a comment letter on the **Management Commentary** discussion paper. At its December meeting EFRAG discussed that draft in the light of the comments made at the CFSS meeting. It was agreed that the draft should continue to support the general direction of the discussion paper, but should make clear EFRAG's view that the main issues that need to be addressed at this stage are:

- is the management commentary an essential part of a company's financial reporting package? EFRAG believes that it is;
- should the IASB add a project on the management commentary to its agenda? EFRAG believes that it should; and
- what should be the objective of any project added to the IASB's agenda? EFRAG's current view is that the objective should be to develop a mandatory standard on the subject.

It was agreed that the draft letter would be finalised after the meeting—probably in the first week of January—and would then be posted on the EFRAG website ([www.EFRAG.org](http://www.EFRAG.org)) for comment.

EFRAG has for some time now been working jointly with the German standard-setter (the GASB) on a discussion paper on **Revenue Recognition**. At its November meeting EFRAG heard that a small staff team has been asked to make various structural changes to the latest draft of the discussion paper and to add additional discussion where considered appropriate to reflect alternative views. The basic approach proposed in the paper would however remain largely unchanged. EFRAG received an update on this work at its December meeting. The staff team had decided to structure the paper around separate discussions of the critical event approach to revenue recognition and of the continuous approach. The staff team also explained that, although the paper had to date favoured a critical event approach, the next draft was likely to take a more balanced view of the two approaches.

EFRAG was asked for input on several key issues addressed in the paper, including:

- whether the paper's scope should be limited to entities that are not financial institutions;
- what is revenue;
- what if any role should an exchange have in the revenue recognition process; and
- from what perspective—the customer's perspective or the entity's perspective—should key questions about substantive fulfilment and disaggregation be addressed.

Work will continue on the draft paper and the aim is to publish it for comment as soon as possible in 2006.

EFRAG discussed the recently issued **IFRIC 7 Applying IAS 29 for the first time**, which deals with hyperinflation and impacts on IAS 12 Income Taxes. EFRAG agreed that it should prepare a draft endorsement letter recommending that the interpretation should be endorsed. That draft letter can be found on the EFRAG website [www.EFRAG.org](http://www.EFRAG.org). Comments are invited on the draft until 10 January 2006.

In November, the IASB had issued a discussion paper **Measurement Bases for Financial Accounting—Measurement on Initial Recognition**, which had been prepared by staff of the Canadian standard-setter. EFRAG discussed the paper in order to prepare a draft comment letter. EFRAG has long-argued that, before the IASB makes any further use of fair value measures, a comprehensive global debate is needed on measurement so that the implications and practicalities of various measurement bases can be fully explored and some conclusions can be reached on which subsequent decisions by the IASB about measurement can be based. For that reason, EFRAG welcomed the opportunity to comment on the Canadian-prepared paper. Having said that, EFRAG found many of the arguments used to support the conclusions in the paper unconvincing. It also disagreed with a number of those conclusions. A number of detailed comments were also made.

EFRAG staff will now prepare a first draft of a comment letter for EFRAG to discuss further and in due course finalise so that it can be issued on the EFRAG website ([www.EFRAG.org](http://www.EFRAG.org)) for public comment.

EFRAG discussed FASB's working draft of its standard on **Fair Value Measurement Guidance**, taking into account the comments made earlier by the NSS. The staff in particular asked EFRAG two questions:

- Bearing in mind that the IASB will be discussing for the next few months which issues it might wish to discuss in detail in the Invitation to Comment accompanying its exposure draft, did EFRAG wish to write to the IASB now to highlight issues that EFRAG thinks should be discussed in that Invitation to Comment?
- What are EFRAG's views on the working draft?

EFRAG decided that it was premature to take any decision on whether to write to the IASB at this stage. A decision on that matter was therefore deferred until January.

EFRAG members 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. EFRAG will follow the developments closely and continue discussions in January.

The next EFRAG TEG meeting will take place on **11 to 13 January 2006** in Brussels.

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