

March 2009

Summary of EFRAG meetings held in March 2009

On Wednesday 18 March 2009 EFRAG held a meeting by public conference call to discuss:

- IFRIC 18 *Transfers of Assets from Customers*
- the ED of proposed amendments to IAS 24 *Relationships with the State*
- the IASB/FASB Financial Crisis Advisory Group's request for input

On Wednesday 25 March 2009 EFRAG met the National Standard-Setters in EFRAG's Consultative Forum of Standard-Setters to discuss:

- the IASB's discussion paper on *Financial Statement Presentation*
- the IASB project on Leases
- the IASB's work programme

From Wednesday 25 to Friday 27 March EFRAG held its monthly meeting and discussed:

- the ED of proposed amendments to IAS 24 *Relationships with the State*
- the IASB/FASB Financial Crisis Advisory Group's request for input
- the IASB project on Leases
- the IASB discussion paper on *Revenue Recognition in Contracts with a Customer*
- Amendments to IFRIC 9 and IAS 39 *Embedded Derivatives*
- the IASB project on Derecognition
- the IASB project on Extractive Activities
- ED10 *Consolidated Financial Statements*
- Restructured IFRS1 First Time Adoption

Finally, on Tuesday 31 March 2009 EFRAG held a meeting by public conference call to discuss:

- IFRIC 18 *Transfers of Assets from Customers*
- the ED of proposed amendments to IAS 24 *Relationships with the State*
- IFRS 7 *Improving Disclosures about Financial Instruments*

IFRIC 18 Transfers of Assets from Customers

EFRAG had a discussion about its draft endorsement advice on IFRIC 18 *Transfers of Assets from Customers* during its February 2009 meeting and instructed staff to prepare a positive draft endorsement advice letter for consideration. During a public conference call meeting on 18 March and at its subsequent regular monthly meeting EFRAG considered, and eventually approved for issue, a positive draft endorsement advice letter and draft effects study report on IFRIC 18. The draft letter and effects study have since been issued for comment and are available from EFRAG's website. Comments are invited until 8 May.

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.

ED of proposed amendments to IAS 24 Relationships with the State

During public conference call meetings on 18 and 31 March and at the normal monthly meeting in March, EFRAG considered the comments it received in response to its draft comment letter on the ED of proposed amendments to IAS 24 *Relationships with the State* and agreed various changes to its comment letter in the light of those comments. The letter was finalised at the end of March and is available on EFRAG's website.

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

During the public conference call meeting on 18 March EFRAG discussed its response to the IASB/FASB Financial Crisis Advisory Group's request for input. A draft response was developed and issued for comment on EFRAG's website. EFRAG discussed that draft response with the European National Standard-setters at its meeting on 25 March, and discussed the response further at its normal monthly meeting later the same week. The letter is now available on EFRAG's website.

IASB discussion paper Financial Statement Presentation

At the CFSS meeting on 25 March, EFRAG sought views on the tentative positions it had expressed in its draft comment letter on the most important issues raised in the IASB discussion paper *Preliminary Views on Financial Statement Presentation*.

- In general, participants liked the presentation objectives proposed in the discussion paper (cohesiveness, disaggregation, liquidity and financial flexibility), although they—like EFRAG in its draft letter—expressed some concerns about how they are articulated in the paper, particularly as it seemed that the objectives would need to be applied in a fairly mechanical way. A more thoughtful application would result in more useful financial statements.
- Participants also expressed significant reservations about the paper's view that the direct method of presenting operating cash flows provides information that is more decision-useful than an indirect method. They also expressed concerns about the cost of implementing the direct method;
- Participants also noted that the proposals on the reconciliation schedule are closely connected to the proposals on the direct method of presenting operating cash flows, and that if one does not apply the direct method, then the reconciliation schedule in the form described cannot be presented either. Generally speaking, participants' view was that, rather than provide a full reconciliation schedule of the kind described, it might be preferable to require additional disclosures that focus on the most important items.

EFRAG expects to finalise its comment letter on the discussion paper at its April meeting.

IASB project on Leases

The European National Standard-setters and EFRAG also received a presentation from IASB staff on the IASB/FASB discussion paper on *Leases* at the CFSS meeting. Participants also discussed the main proposals and EFRAG continued that discussion in its monthly meeting in order to provide some initial input for EFRAG's draft comment letter on the subject.

- EFRAG members noted that under the proposals it would no longer be necessary to differentiate between operating leases and financing leases. They generally welcomed this step and were not in favour of scoping out of the eventual standard non-core asset leases or short-term leases and leases of intangible assets.

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- The proposals in the discussion paper are based on a ‘right of use’ approach; all leases convey a right of use to the lessee and that right should be recognised by the lessee as an asset. EFRAG discussed an alternative approach—the ‘whole asset approach’—under which the lessee recognises the whole of the asset that is the subject of the lease and also a liability to return the asset at the end of the lease—but EFRAG members generally supported the discussion paper’s view that the right of use approach is preferable.
- EFRAG members also generally supported the discussion paper’s conclusion that options available under the lease should be taken into account in recognising and measuring the leased asset and should not be accounted for as separate components. EFRAG members were also broadly supportive of the paper’s proposals as to how those options should be dealt with in the recognition and measurement.

IASB’s work programme

There is much discussion at the moment about the IASB’s work programme, and in particular whether it is too big and whether it is focusing on the right issues. Aware that it is often argued that, whilst there is widespread agreement that the IASB’s work programme is too big, there is no agreement as to which projects should be stopped. Participants at the CFSS meeting were asked to indicate their views as to the priority that should be attached to the IASB’s projects. An analysis of the views expressed seemed to show that there is support amongst participants for a high priority being attached to financial crisis-related issues and financial instrument projects (ie fair value measurement, consolidation, derecognition, financial instrument disclosures, and a replacement for IAS 39), as well as the projects on Framework and insurance contracts. On the other hand, there seemed to be little enthusiasm for the projects on earnings per share, rate-regulated activities, government grants, related-party disclosures, extractive industries, joint ventures and

IASB discussion paper on Revenue Recognition in Contracts with a Customer

In December 2008 IASB issued a discussion paper on revenue recognition in contracts with a customer. The IASB’s intention is that the discussion paper should lead to a new standard on revenue recognition before the end of 2011 that would be applied to all types of transactions. During its March 2009 meeting EFRAG continued its discussions of a proposed draft comment letter on the discussion paper. In particular it was discussed:

- how to measure performance obligations and whether or not some performance obligations related to contracts with customer should be scoped out of a revenue recognition standard or measured differently in such a standard;
- how pre-contract costs should be accounted for;
- how to account for onerous contracts;
- how to account for warranties and
- when assets related to service contracts are transferred.

EFRAG also discussed what asset increases and what liability decreases to consider in a preferred model for revenue recognition. In relation to this preferred model, it was also discussed what criteria should be met before revenue could be recognised and which elements of the revenue recognition model proposed by IASB should be maintained in a preferred model. It is expected that EFRAG will issue its draft comment letter shortly after Easter.

Amendments to IFRIC 9 and IAS 39 Embedded Derivatives

At its monthly meeting in March, EFRAG had a discussion about its draft endorsement advice on the Amendments to IFRIC 9 and IAS 39 *Embedded Derivatives*. EFRAG tentatively decided to recommend the amendments for endorsement, and it approved a draft endorsement advice letter and draft effects study report for issue. Both documents are now available from EFRAG’s website. Comments are invited until 8 May.

IASB project on Derecognition

EFRAG also had an initial discussion of some of the proposals in the IASB ED on derecognition that has subsequently been issued. The ED discusses two approaches.

- Under the first approach, the transfer of a financial asset or of any cash flows from that asset result in the asset being derecognised and the proceeds and the fair value of any retained part being recognised in its place. This approach is significantly different from the approach in existing IFRS, and would result in significantly more transfers qualifying for derecognition than the current approach.
- Under the second approach, an asset is derecognised when the transferor has no continuing involvement in it or when the transferor has relinquished control. The relinquishment of control by the transferor is characterised by the practical ability of the transferee to re-transfer the asset for its own benefit. This approach is similar in many ways to the existing approach, except that the exposure of the transferor to the risks and rewards from the transferred asset does not matter. A notable consequence of that is that repos of a readily available asset would qualify for derecognition.

IASB project on Extractive Activities

In 2004 the IASB initiated a project on Extractive Activities. The project aims to develop an acceptable accounting approach to resolve the issues that are unique to upstream extractive activities. The IASB is expected to issue a discussion paper on the subject in Q2 2009 and, in preparation for that, EFRAG had an educational session at its monthly March meeting on some aspects of the date. The session started with a presentation focusing on:

- What makes extractive industries different?
- What is treated differently?
- Why is it treated differently?
- Why an IFRS specifically for extractive activities?
- Industry comparisons

The presentation was followed by a brief discussion on the appropriateness of recognising reserves and resources as assets in the financial statements. This discussion centered on the notions of control and measurement. The classification of reserves and resources, as used by other international bodies, was also discussed.

ED10 Consolidated Financial Statements

EFRAG considered the comments it received in response to its draft comment letter on ED10 ‘Consolidated Financial Statements’ and finalised its comment letter in the light of those comments. EFRAG confirmed its belief that the ED should explicitly incorporate risks and rewards as part of the proposed control-based model. EFRAG remains concerned that the proposed ED will not always result in the right entities being consolidated. Find EFRAG’s final comment letter at www.efrag.org.

Restructured IFRS 1 First-time Adoption of IFRS

EFRAG considered the comments it received in response to its Invitation to Comment on its draft endorsement advice and draft effects study on the restructured IFRS 1 *First-time Adoption of International Financial Reporting Standards*. In light of the comments received, EFRAG finalised its technical assessment—concluding that the restructured IFRS 1 met the EU endorsement criteria—and assessment of the costs and benefits of implementing the revised standard in the EU. EFRAG therefore recommended the European Commission to endorse the restructured IFRS 1.

EFRAG has issued its endorsement advice letter and effects study report on the restructured standard and they are both available on EFRAG’s website.

IFRS 7 Improving Disclosures about Financial Instruments

At its public conference call meeting on 31 March, EFRAG considered its endorsement advice on IFRS 7 *Improving Disclosures about Financial Instruments* and tentatively concluded that it should recommend endorsement. It also considered a first draft of a possible draft endorsement advice letter and draft effects study report, and agreed various changes to the drafts. The draft endorsement advice letter and draft effects study report were subsequently approved and issued for comment. The Invitation to Comment is available from EFRAG's website, and comments are invited until 15 May. †

Future Meetings

The next meeting of EFRAG TEG will take place from 27 to 30 April 2009 in Warsaw (Poland).