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Editorial

As 2015 gets under way, discussions on the application of IFRS 15 are in full swing! Many technical subjects have now been discussed by the Joint Transition Resource Group, and already the idea of amending the standard as published has made some headway, at least on the FASB side.

The question of the mandatory application date has also been raised. Against this background, the January 2015 meeting of EFRAG's TEG officially recommended the new EFRAG Board to adopt IFRS 15 with the later mandatory effective date of 2018.

Beyond the GAAP will take this opportunity to give an update on the current technical debates on IFRS 15. This edition will also introduce the new EFRAG governance structure that came into effect on 31 October 2014 and within which the TEG will in future play a role in providing technical advice to the Board on IFRS matters.

Enjoy your reading!

Michel Barbet-Massin Edouard Fossat

EUROPEAN highlights

Endorsement of the 2010-2012 Annual improvements Cycle

On 17 December 2014, the European Commission endorsed the 2010-2012 Annual Improvements Cycle, published by the IASB on 12 December 2013.

Readers may recall that the amendments published[1] by the IASB affected the following standards:

- IFRS 2 – *Share-based payment*
- IFRS 3 – *Business combinations*, and related amendments to IAS 37 and IAS 39;
- IFRS 8 – *Operating segments*;
- IFRS 13 – *Fair value measurement*;
- IAS 16 – *Property, plant and equipment*;
- IAS 24 – *Related party disclosures*; and
- IAS 38 – *Intangible assets*.

Note that the amendments to IFRS 13 have not been endorsed, as they related purely to the Basis for Conclusions. The Bases for Conclusions accompany IFRSs but do not form an integral part of them.

Regulation (EU) 2015/28, published in the OJEU on 9 January 2015, sets the mandatory effective date of these amendments, at the latest, as from the commencement date of the first financial year starting on or after 1 February 2015.

This regulation can be consulted at the following address:

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R0028&from=EN

[1] For more details, see the study published in the December 2013 edition of Beyond the GAAP.

Endorsement of the amendment to IAS 19 – *Employee contributions*

On 17 December 2014, the European Commission endorsed the amendment to IAS 19 – *Employee contributions*, published by the IASB on 21 November 2013.

This amendment simplifies and clarifies the recognition of employee or third party contributions to defined benefit plans.

It stipulates that entities are authorised to account for these contributions as a reduction of the service cost for the period during which they are paid, provided that the amount of the contributions is independent of the number of service years (for example, employee contributions calculated as a fixed percentage of salary).

Regulation (EU) 2015/29, published in the OJEU on 9 January 2015, sets the mandatory effective date of these amendments, at the latest, as from the commencement date of the first financial year starting on or after 1 February 2015 (the mandatory application date had been fixed by the IASB at financial periods opened as of 1 July 2014, with early application permitted).

This regulation can be consulted at the following address:

http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32015R0029&from=EN

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A Closer Look

Application of IFRS 15 – *Revenue recognition*: TRG update

On 26 January 2015 the third meeting of the Joint Transition Resource Group was held. It will be remembered that this group, created by the IASB and the FASB just after the publication of the new converged standard on revenue recognition, was set up to discuss practical questions raised by the stakeholders in the course of implementing IFRS 15 (and, on the US side, Topic 606). Stakeholders can continue to put their questions to the TRG, since three further meetings are planned in 2015 (30 March, 13 July and 9 November).

Pending the report prepared by the staff, the first part of Beyond the GAAP's study presents our best understanding of the TRG's comments on the issues tackled during the January meeting. In the second part, Beyond the GAAP will present the subjects now under consideration by the staff as a result of previous meetings of the TRG. A progress report was made at the start of the January meeting.

1. Subjects discussed at the January TRG meeting

These subjects are presented in the order in which they were discussed.

Identifying promised goods or services

Before determining whether the promises made to a customer in a contract to transfer a series of goods or services are distinct (and hence meet the definition of separate performance obligations), those goods or services promised in the contract must be identified. What is actually being sold to the customer?

In its basis for conclusions (BC84), IFRS 15 states that the concept of a performance obligation is not very different from the concepts of "component", "deliverable" or other terms that may have been used in the preceding standards. Some therefore felt that the two Boards did not necessarily intend to introduce a much more detailed breakdown of contracts than is conducted today. This seems to be corroborated by paragraph 25 of the standard, which states that performance obligations do not include the activities that an entity must undertake to fulfill a contract, unless a good or a service is transferred to the customer in the course of these activities (for example, the performance of administrative tasks in order to set up a contract does not transfer a service to the customer).

But the IFRS 15 basis for conclusions (BC90) also suggests that the Boards did not intend to exempt entities from recognising performance obligations that might be regarded as being perfunctory or inconsequential. An entity should therefore assess their materiality as described in IAS 8. This is contrary to the SEC guidance which stated that an entity need not account for an inconsequential or perfunctory - that is, an immaterial - element in the contract.

Hence stakeholders wondered how IFRS 15 should be interpreted, and to what extent it would be necessary to identify more promises to the customer than is the case today.

The members of the TRG were generally agreed that the IFRS 15 basis for conclusion creates a degree of confusion, and they suggested that the Boards should remove this ambiguity by suppressing paragraph BC90 quoted above. TRG members also suggested that assessing materiality is a matter of judgment, and that IFRS 15 did not need to be more explicit on this point. Finally, there was a consensus on the fact that IFRS 15 should not lead to the identification of a significantly larger number of performance obligations than previously. However, attention should be paid to marketing expenses in the nature of incentives (i.e. when free goods are given to customers during the sale of the main product). Transactions of this kind may lead to the allocation of consideration to items given free of charge to the customer.

Incremental costs of obtaining a contract

Paragraph 91 of IFRS 15 indicates that an entity should recognise the incremental costs of obtaining a contract as an asset if it expects to recover those costs.

A number of issues were brought to the attention of the staff, including:

- Should an entity capitalise a commission paid at the time of modification of a contract which is not treated as being distinct from the initial contract (in application of the provisions of IFRS 15 on contract modifications)?
- How should an entity account for commissions that are paid subject to a fixed threshold and whose amount is variable on the basis of the cumulative number or value of contracts signed to date?
- How should an entity determine the pattern of amortisation for a contract asset arising from the costs of obtaining a contract, where this asset relates to several performance obligations in a single contract and these performance obligations are fulfilled at different times or over different periods?

In general, TRG members believed that the principles set out in IFRS 15 on the capitalisation of contract costs are adequate to answer these questions. Further, they noted that the questions posed must first be addressed in terms of whether or not there is a liability, and how to make the estimation of its amount. In other words, IFRS 15 was not intended to amend the approach to accounting for liabilities set out in IAS 19 and IFRS 2. IFRS 15 only indicates whether, where a liability exists, the corresponding amount

should be recognised immediately as an expense or capitalised.

On the question of the amortisation of the asset, TRG members observed that this is a matter of judgment.

Contract modifications prior to the date of initial application

The staff were told that there might be challenges in restating contract modifications occurring prior to the date of initial application of the standard in the case where an entity elects the full retrospective approach (which entails restating the accounts as if IFRS 15 had always been applied).

IFRS 15 contains very precise provisions on how to account for contract modifications. In practice, a contract modification may have three accounting consequences:

- The continuation of the original contract, and the treatment of the modification as a new and distinct contract;
- The termination of the original, partly executed contract and the prospective recognition of the remainder and of the modification globally as a new contract;
- The retrospective restatement of the amounts recognised under the original contract, as if the modification had occurred at the start.

Some practical expedients have already been proposed to entities in the case of the full retrospective approach. However, at this stage none of these expedients concern contract modifications that occurred prior to the initial application of the standard.

Some entities may have to restate a very significant number of contracts which underwent multiple modifications between their signature and the date of first application. Hence some entities believe that it may be impracticable to carry out these restatements, and/or question the cost/benefit ratio. Some stakeholders are therefore calling for a practical expedient to be added to IFRS 15 on this subject.

A majority of members of the TRG expressed their support for the introduction of a practical expedient. But some raised the issue of the comparability of financial statements if entities were to be granted the option of not restating contracts modified before the application date.

The staff will continue their investigations to see how, where applicable, this practical expedient could be drafted and if it could be applied to all entities, regardless of the contract portfolio type concerned.

Noncash consideration

The issues brought before the TRG on this subject relate to:

- The date at which the amounts received/receivable in a form other than cash should be measured:
  - At contract inception (View A)?
  - When the noncash consideration is received, or is receivable (View B)?
  - At the earlier of (i) when the noncash consideration is received (or is receivable) and (ii) when the related performance obligation is satisfied (or as the performance obligation is satisfied, if satisfied over time) (View C)?
- How should the guidance on the constraint on estimates of variable consideration be applied, when the fair value of noncash consideration might vary due to both the form of the consideration and for reasons other than the form of the consideration?

On the first question, TRG members expressed some very diverse views. No majority view emerged. Divergent practices can therefore be expected if IFRS 15 is not clarified.

Stand-ready performance obligations

The paper prepared by the staff for the TRG meeting sets out four types of promises made to customers that stakeholders regard as corresponding to “stand-ready obligations”:

- Type A: obligations in which the delivery of the goods, services, or intellectual property underlying the obligation is within the control of the entity, but for which the entity must still further develop its goods, services, or intellectual property (e.g. unspecified software updates as these become available);
- Type B: obligations in which the delivery of the underlying goods or services is outside the control of both the entity and the customer (e.g. a promise to remove snow from an airport in exchange for a fixed fee for the year);
- Type C: obligations in which the delivery of the underlying goods or services is within the control of the customer (e.g. a promise to provide periodic maintenance, when-and-if needed, on a customer's equipment in exchange for a fixed fee over a given period);
- Type D: obligations making a good or service available to the customer continuously (e.g. a health club). IFRS 15 provides an example of this type of obligations.

The following questions were put to the TRG:

- Question 1: what is the nature of the promise to the customer in the contracts described above? Is the nature of the promise the act of “standing ready” or is it the actual delivery of the goods or services that the entity stands ready to provide to the customer?
- Question 2: how should an entity measure progress towards the complete satisfaction of a stand-ready obligation that is satisfied over time? A straight-line revenue attribution method over the duration of the obligation would seem to be appropriate generally, but this approach is certainly not relevant in every case (for

example, in the case of clearing snow, since snow is not expected all year round).

On the first question, the debate focused on whether the customer expected to receive a specified quantity of goods or services (x software updates, y maintenance services, etc.) or an unspecified quantity. During this debate, some TRG members noted that the identification of the nature of the promised goods or services was primarily a matter of judgment. The method of remunerating the performance (i.e. fixed price over a given period, or variable prices depending on the significance of the performance) should give be a good indicator of the nature of the entity's obligation. But it was also felt that the standard should enable stakeholders to reach the right conclusion. If it appears necessary to add examples, care must be taken to ensure that they do not conflict with the principles of IFRS 15.

Collectability

The TRG was asked how to apply the new standard's guidance on collectability. This guidance is presented in step 1 of the revenue recognition model (i.e. identification of the contract concluded with a customer). One of the criteria that must be fulfilled at contract inception to demonstrate that a contract with a customer exists (and may therefore lead to revenue recognition), is that it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

Hence the TRG considered the following issues:

- Question 1: how should an entity assess collectability for a portfolio of contracts?
- Question 2: when should an entity reassess collectability (i.e. in the light of what new facts and circumstances)?
- Question 3: what happens in the case of contracts that are subsequently reassessed as not probable of collection (that is, after being assessed as collectable at contract inception)?
- Question 4: how should an entity distinguish whether a contract in fact includes a price concession? IFRS 15 states that, to assess whether it is probable that an entity will receive the consideration, it must take account only of the ability and intention of the customer to pay this amount when it becomes due. The amount of consideration to which it is entitled may be less than the price set out in the contract if the consideration is variable due to a price concession that the entity may grant to the customer.

The two first questions gave rise to virtually no debate.

In the case of the third question, the scenario set out in the staff paper was as follows: an entity has received cash that is non-refundable in exchange for performance to-date. It recognises this amount in revenue since the criteria for the existence of a contract with a customer were fulfilled at the start. Subsequently the entity believes that the collectability criterion in IFRS 15 is no longer fulfilled. Nevertheless, because it either wishes or is constrained to do so, the entity continues to provide the good or service to its customer in accordance with the original contract terms, and receives (some proportion of) cash from its customer. In this situation, under IFRS 15, the sums subsequently received must be presented as a liability and no revenue is recognised, since it is considered that there is no longer a contract with the customer. This is because IFRS 15 states that revenue can only be recognised in this situation in one of the following situations:

- the entity has no remaining obligations to transfer goods or services to the customer, and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable; or
- the contract has been terminated, and the consideration received from the customer is non-refundable (IFRS 15.15).

Some stakeholders wondered whether, in these situations, it was appropriate to prohibit the recognition of revenue when cash was received from the customer.

After lengthy discussion it was concluded that IFRS 15 was clear on the fact that one of the essential conditions for identifying the existence of a contract with a customer (and hence for having the right to recognise revenue) is that it is probable that the entity will recover the consideration to which it is entitled in exchange for the goods or services that will be transferred to the customer. If this criterion is not fulfilled, the sums received from the customer are not recognised as revenue except under the circumstances described in paragraph 15 of the standard.

The consequences can nevertheless seem very punitive. The Boards may decide to re-examine the guidance provided in IFRS 15.

A consensus on the final question was quickly reached, members deciding that the distinction calls for the exercise of judgement.

Variable consideration (bonuses, penalties, etc.)

Two questions were put to members of the TRG:

- Question 1: when should an entity recognise consideration payable to a customer? How should the IFRS 15 guidance be applied in conjunction with the more general guidance as to estimating and constraining variable consideration?
- Question 2: should the constraint on variable consideration be applied at the contract level or the performance obligation level? This question relates to how an entity should assess the materiality of a possible subsequent downward adjustment of revenue (when applying the constraint defined in step 3 of the model presented in IFRS 15). The example presented is that of a contract including one fixed price performance obligation and one performance obligation whose price is variable and must therefore be estimated. In this scenario the variable price is of relatively little magnitude compared with the total contract price.

The first question is a matter of how the guidance - provided in the third step of the revenue recognition model - on estimating consideration payable to a customer should be assessed in terms of its interaction with the guidance on constraining variable consideration. This question relates to the scenario in which an entity promises to pay consideration to a customer after it has recognised revenue for the transfer of goods or services. In practice, the entity is here offering a price reduction *a posteriori* (e.g. by deciding to distribute discount coupons to end customers, when the goods have already been sold to the distributors). At a preliminary stage, the entity had considered whether this reduction was going to be granted, but it was not certain that this would actually come about. In this instance, must account be taken of the consideration payable to the customer from the time the revenue is recognised (i.e. when estimating the variable amounts / following the guidance on constraining variable considerable), or should this consideration be accounted for as a reduction in revenue at a later date? IFRS 15 states that the entity must recognise the reduction in revenue when (or as) the later of the following two events occurs:

- the entity recognises the revenue for the transfer of the promised goods or services to the customer;
- the entity pays or promises to pay the consideration (even if the payment is contingent on a future event). This promise might be implied by an entity's customary business practices.

Some members of the TRG said that they would not spontaneously have thought of looking at the guidance on variable consideration, since guidance specific to consideration payable to a customer exists. Others noted that there is internal inconsistency in IFRS 15 on this subject. But it was also observed that this issue was limited to scenarios which would be very infrequent in practice.

In the case of the second question, the constraint imposed by step 3 is such that an entity must assess whether it is highly probable that there will be no significant reversal in the amount of cumulative revenue recognised before recognising some or all of an amount of variable consideration. The question is one of how the magnitude of the potential downward adjustment should be assessed: in terms of the total revenue allocation to the performance obligation in question, or in terms of the total revenue estimated for the contract?

For applying the constraint on the estimate of variable consideration, TRG members generally agreed that the magnitude of the potential downward adjustment in cumulative revenue recognised should be assessed with reference to the contract as a whole. This is consistent with the fact than in step 3, the transaction price is determined for the contract, not for each performance obligation. Nevertheless, some paragraphs in the basis for conclusions (paragraph BC216 in particular) seem to suggest the contrary. There is thus also some inconsistency on this topic.

In conclusion, it was confirmed that there are potential inconsistencies in respect of both these aspects of variable consideration, but that these can probably be resolved without significantly amending the standard.

Questions from TRG members now under consideration by the staff

Some questions raised by members of the TRG had not previously been analysed by the staff. A discussion took place at the end of the meeting to obtain feedback with a view to addressing these subjects further at a future TRG meeting.

The issues raised relate to the following points:

- "Material right" in relation to options for the acquisition of additional goods or services that must be accounted for as separate performance obligations. In particular, two questions were raised:
  - How should entities recognise the exercise of the option by the customer? As the continuation of the contract, a contract modification or as variable consideration?
  - Is it necessary to consider whether a significant financing component exists for the option?
- Consideration payable to the customer: a number of practical questions were raised on this topic.
- Existence of a significant financing component in the contract. The following questions were brought to the attention of the TRG:
  - What is the scope of paragraph 62(c) of IFRS 15? According to this paragraph, a contract concluded with a customer contains no significant financing component if the difference between the consideration and the cash selling price arises for reasons "other than the provision of finance", and if this difference is proportional to the reason for the difference.
  - How should an entity adjust the consideration promised for the time value of money when the consideration is received upfront and revenue is recognised over multiple years? This question relates to the situation where the contract includes one or more performance obligations.

2. Subjects currently under investigation by the staff following preceding meetings of the TRG

Since the TRG began its work in July 2014, three subjects have been identified as requiring further research and additional stakeholder consultations. The staff gave an update on each of these subjects at the start of the January 2015 meeting:

- Agent / principal distinction (TRG of July 2014): the FASB staff are still investigating this issue. A new progress report will be presented to the March 2015 TRG.
- Licences (TRG meetings of July 2014 and October 2014): two main areas are under discussion:

- Determining the nature of a license of intellectual property (i.e. the distinction between a “dynamic” licence, where the revenue is recognised over time, and a “static” licence, where revenue is recognised at a point in time);
- Scope and application of the royalty constraint to variable consideration (exception to the general approach).

The FASB staff have conducted additional research and outreach to establish whether the standard requires improvements. All the outstanding aspects of licences will be discussed during a joint IASB/FASB meeting in February. If improvements do need to be made to the standard, they will be introduced after normal due process, including a call for comments on the basis of a limited-scope exposure draft.

- Identification of performance obligations (October 2014 TRG): how should entities determine whether a good or service is “distinct”, and in particular “distinct in the context of the contract”? An additional question was raised in conjunction with the paper discussed in January on the goods or services promised in a contract: whether shipping is a service promised in the contract and hence represents a separate performance obligation.

  Additional research and consultations have also been conducted by the staff of the FASB. The aim is to identify whether improvements could be made to the standard to avoid divergent practices in the identification of performance obligations. The subject will be comprehensively addressed during the joint IASB / FASB meeting in February. Here again, if improvements do need to be made to the standard, they will be introduced after due process, including a call for comments on the basis of a limited-scope exposure draft.

For further details of both these topics, see Beyond the GAAP of October 2014.

The joint public meeting of the Boards scheduled for February should give us a better idea of the roadmap that is likely to emerge.

The staff have also indicated that they are considering the possibility of introducing practical expedients into the new revenue recognition standard. As explained above, one such new practical expedient for preparers could affect the treatment of contract modifications arising before the date of initial application of the standard. The staff are also working on a practical expedient for the presentation of taxes on revenue, while another such project addresses the issue of whether shipping a good represents a distinct performance obligation. The staff are hoping to make rapid progress on these topics.

It has been announced that the timetable for the mandatory application of the new standard on revenue recognition, announced last October, will be respected (in view of the consultations conducted by FASB staff). In practice, a meeting of the FASB scheduled for the start of the 2nd quarter of 2015 should enable the Board to decide whether to propose a delay in application. The IASB has indicated that it has received fewer comments from stakeholders about this issue, but that it remains very interested in the progress of the FASB’s work. In the course of its own outreach work, the IASB was given to understand that the need to delay the effective date of IFRS 15 was mainly due to the expected impacts on information systems.

2015 may therefore see some twists regarding IFRS 15.

A Closer Look

The new EFRAG: (nearly) up and running

At the initiative of the European Commissioner Michel Barnier, in November 2013 Mr Maystadt set out his proposals* for reinforcing the contribution of the European Union to IFRSs and for improving the governance of the European institutions concerned, namely EFRAG (the European Financial Reporting Advisory Group) and the ARC (the Accounting Regulatory Committee).

Mr Maystadt proposed that EFRAG should become the voice of Europe in accounting debates. It should therefore enable all the stakeholders to express and coordinate their views, which, although they may come from different perspectives, may nonetheless be complementary and coherent at European level.

A year later, on 31 October 2014, the new EFRAG governance came into force, reflecting the spirit of Mr Maystadt's proposals though not identical to them.

Now that this new structure has been up and running for three months, the time has come for Beyond the GAAP to introduce its main features, focusing on the following points:

- EFRAG members: extending membership to national funding mechanisms and to other private organisations contributing to the financing of EFRAG;
- Board: the creation of a decision-making and executive board to advise the IASB and the European Commission on IFRSs with a view to their endorsement in Europe, and to govern the organisation;
- TEG (Technical Expert Group): a new positioning of the group as providing advice on IFRSs to the Board.

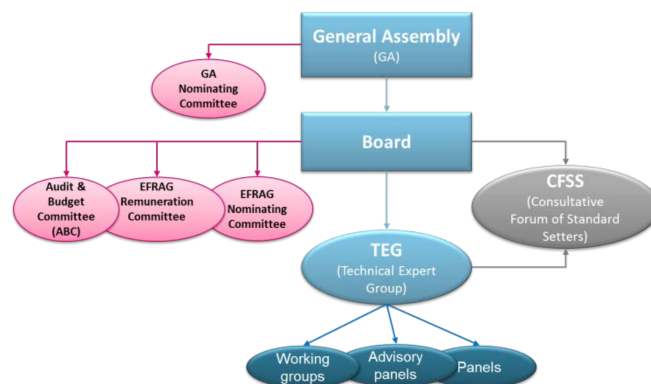
Before examining these aspects in detail, a description of EFRAG's mandate and a flowchart explaining its new structure is necessary.

* Report available at: http://ec.europa.eu/finance/accounting/docs/governance/reform/131112_report_en.pdf

1. A new structure designed to serve an extended mandate

An enhanced organisation

At first sight, the structure summarised in the chart below does not look fundamentally different from its predecessor.



However, as we will show, the differences between the two structures lie in the composition of their different bodies, in their respective roles and in the interactions between them. Thus, in outline, the decisions are taken by the General Assembly and the Board while all the remaining bodies provide support, either as advisory bodies or as a driving force for proposals.

Note, however, the disappearance of the Planning and Resource Committee (PRC) which was responsible for establishing the organisation's accounting research policy and for supervising the monitoring of research projects in association with the national standard setters (NSS). Neither the statutes nor the internal rules of EFRAG* are very explicit on this subject. Insofar as these activities followed the same operational procedures as the organisation's other activities (including public consultation), it appears that research will henceforth be organised in the same way as the other activities in terms of supervision.

A mandate extending to non-technical issues

While the technical assessment of future standards and finalised IFRSs remains at the heart of EFRAG's mandate, its role also includes the following aspects:

- The analysis of the potential impact of the proposed and finalised texts;
- Support for the greater integration of accounting standard setters, businesses, auditors, users and other European stakeholders.

Thus, the composition of the General Assembly and of the Board has been extended and the profile of Board members has been enhanced: members must be able to go beyond the technical accounting aspects to assess the impact in terms of economic growth and financial stability, which are of crucial importance to the European public good.

Readers will recall that the European public good is one of the criteria identified in Regulation EC 1606/2002 (known as the "IAS Regulation") for the endorsement of a standard by the European Union. The new EFRAG governance does not give this body decision-making powers on this criterion - that is the role of the European institutions - but EFRAG cannot avoid taking account of such matters in its recommendations to the European Commission.

[*] Available at: http://www.efrag.org/Front/c1-342/Legal.aspx

2. A General Assembly extended to all the financing institutions

A General Assembly organised in two pillars

Under the former structure, the General Assembly consisted of the private European organisations that had founded EFRAG, known as "Member Organisations" (FEE, BusinessEurope, FBE, Insurance Europe, ESBG, EACB and EFAA[**]). These were not the only organisations funding EFRAG, as around a third of its finance was provided by national funding mechanisms, mainly managed by standard setters, and half came from the European Commission (which more or less matches the funding provided by the other contributors).

The new structure incorporates the national funding mechanisms and any private or public organisation that funds EFRAG above a minimum threshold. The exception is the European Commission which cannot be a member of EFRAG for legal reasons. However, it has a representative at every level of the organisation.

The General Assembly is therefore organised in two chapters:

- The European Stakeholder Organisations, including a new member in addition to the Member Organisations, the European Federation of Financial Analysts Societies, EFFAS;
- The national funding mechanisms (National Organisations), of which there are seven: Germany, France, Italy, Luxembourg, Netherlands, the United Kingdom and Sweden.

Voting rules to ensure a balance between the two chapters of the General Assembly

In its votes, the General Assembly strives to reach a consensus.

If there is no consensus, each chapter holds half the voting rights in the General Assembly. Within each chapter, voting rights are allocated proportionally, but by different methods in each.

[**] In order: Federation of European Accountants, European Business Federations, European Banking Federation, European (Re)Insurance Federation, European Savings Banks Group, European Association of Cooperative Banks, European Federation of Accountants and Auditors.

Rules for a quorum and representation are established both for the General Assembly as a whole and for each chapter:

- simple majority: a quorum of half of the votes present or represented; presence or representation of at least a third of the votes per chapter.
- qualified majority (four-fifths of the votes cast): a quorum of two-thirds of the present or represented votes; presence or representation of at least half of the votes of each chapter.

  A qualified majority is required for matters affecting the existence of the organisation, the removal of a member of the Board and a rise of more than 10% in the organisation's budget.

Note that if all the members of a chapter are opposed to a decision, it will be rejected.

A General Assembly that can advise the European Commission

As well as the traditional functions of a General Assembly, (composition of the GA, the life of the organisation itself, the appointment and supervision of the Board, approval of the budget and accounts, auditors) the EFRAG General Assembly can be consulted by the European Commission in the course of its attendance at meetings of the IFRS Foundation's Monitoring Board of which it is a member (see Beyond the GAAP no 22, April 2009).

To perform its traditional role of appointing members of the Board the General Assembly has a Nominating Committee which proposes members of the Board for approval by the General Assembly. This committee is made up of members drawn from both chapters of the General Assembly.

3. A Board with increased scope and powers

A Board including national standard setters

The former board was a supervisory board with 17 members from EFRAG member organisations.

The new Board, which also has 17 members, is comprised of a President and two pillars, with balanced geographic representation:

- eight members of European organisations: two proposed by BusinessEurope, two from the three banking federations, one by Insurance Europe, two by the FEE and one from the federations representing the users of financial statements;
- eight national standard setters, which must include Germany, France, Italy and the United Kingdom, the other four coming in principle from countries contributing to the funding of the organisation.

Note that the ANC (the French national standard setter) is represented by Mazars partner Michel Barbet-Massin pending the appointment of its new chairman.

Mr Maystadt had in fact recommended an enhanced role for national standard setters, but in his view the Board would ideally have included the European public agencies (EBA, EIOPA, ESMA) and the European Central Bank (his proposal was: four European public institutions / five European stakeholders / seven national standard setters). As this could not be arranged, these organisations each have a permanent representative with speaking rights in the debates, as does the European Commission, while the number of members in the two pillars has been increased to preserve the number of Board members (17) recommended by Mr Maystadt.

The President of EFRAG is nominated by the European Commission after hearing by the European Parliament and the Council.

As the process for nomination of the President has not been completed, Roger Marshall, Chairman of the FRC Accounting Council (the UK standard setter) has been appointed Acting President and the Board is currently operating with 16 members.

Increased powers to represent European positions

Previously a supervisory board, the Board, after consideration of the economic impacts, has become an executive body and sole body charged with the responsibility for providing positions on IFRSs to:

- The IASB during the drafting of standards;
- The European Commission, during the process of endorsement of IFRSs by the European Union (recommending whether or not a standard should be endorsed).

This role had previously been devolved to the TEG (see below).

Further, like any executive board, it has the powers required for management of the organisation: nomination of the Vice-President, the CEO and the members of the TEG, organisation and monitoring of the organisation's funding and expenses, preparation of the General Assembly's decisions and the annual report, and supervision of due process within the organisation.

For these operational tasks, the Board is assisted by three committees: the Nominating Committee (for nominating members of the TEG), the Audit and Budget Committee and the Remuneration Committee (which advises on EFRAG remuneration policy for staff, including management). Like the General Assembly Nominating Committee, these committees are comprised of equal numbers of members from each pillar.

The European voice expressed through consensus

The Board may only validly deliberate if two-thirds of its members are present (they may only be represented in exceptional circumstances, at the President's discretion).

Following Mr Maystadt's recommendations, decisions of the Board must in principle be reached by consensus.

However, there is a fallback procedure in case consensus cannot be reached:

- Where a proposed position is about to be issued for public consultation, the Board may choose to publish more than one view
- Where it is not possible to reach consensus on a single position, nor on the publication of split views (as above):
  - A qualified majority of two-thirds of members present or represented is required for positions submitted for public comment and final positions, other than those published in the course of endorsement of standards in Europe (draft comment letters, draft position papers , etc.);
  - If, in exceptional cases, a qualified majority could not be found for a final position, the President of the Board could present his conclusions based on an indicative vote whereby the majority view would be presented as the organisation's position;
  - The same rules apply to endorsement advice issued for public consultation and final recommendations, with the following additions: where the position has been reached by qualified majority, the names of the dissenting members and their reasons for opposing the recommendation must be submitted to the European Commission along with the endorsement advice, it being understood that these reasons must be so important that these members cannot accept the position as a whole.

The Board meets for a day once a month.

A more transparent process

Like the meetings of the former Supervisory Board, the meetings of the Board are held partly in closed session and partly in public. The main change is that documents discussed in public sessions are now made publicly available on its website, www.efrag.org. These documents will regularly include:

- TEG advice to the Board on the IFRSs analyses that it should provide to the IASB and the European Commission;
- The EFRAG work plan.

The President of the Board is the spokesperson for the organisation. He may delegate this power to Board members or the Chairman of the TEG, in particular in technical forums.

A summary of the Board's decisions can be consulted on the EFRAG website.

4. The TEG in an advisory role

An expanded group

Unlike the Board, which has an unchanged number of members (the standard setters having replaced eight representatives of organisations that were previously EFRAG members) the TEG has been expanded from 12 to 16 members, the four additional members being put

forward by the German, French, Italian and UK standard setters. The people currently nominated by these standard setters are their technical directors.

Under the preceding system of governance, the chairmen of these bodies were consultative members of the TEG. Henceforth they are members of the new EFRAG Board.

Few operational changes

The TEG is no longer empowered to take decisions on IFRSs except where this power is delegated to it by the Board; its proposals are therefore submitted to the Board. Note that both majority and minority views are disclosed to the Board.

Setting aside the relationship between the Board and the TEG, the TEG's operating procedures, described in the internal rules, have not been amended to any significant extent:

- A term of office of a maximum of six years, or 12 years for the Chairman and Vice Chairman of the TEG, of which six are in their capacity as members of the TEG;
- Monthly physical meetings lasting two to three days, supplemented where necessary with conference calls;
- Meetings which are mostly public;
- Documents are still never made public (unlike those of the Board);
- Unchanged voting rules: simple majority (the TEG Chairman has a casting vote) except for positions regarding the endorsement of standards by Europe, where a tied vote means that a motion has been passed. In this instance, members have no option to abstain.
- As before, the IASB can take part in the TEG's discussions.

The Chairman of the TEG, responsible for technical matters and field work, may also be the CEO of EFRAG. The CEO is responsible for the day to day operations of the organisation and its services.

5. Some improvements for other groups

CFSS to advise the Board

In the new organisation, the Consultative Forum of Standard Setters (CFSS) has been given a role advising the Board on aspects of strategy or policy. For these subjects, it will be chaired by the President of the Board.

The CFSS will continue to advise the TEG on technical matters and is chaired by the Chairman of the TEG.

The internal rules also state that the CFSS will prepare the meetings of the Accounting Standards Advisory Forum (which advises the IASB) to support its European members, which include EFRAG.

Increased interaction with the TEG for working groups

EFRAG's working groups advise the TEG. They are generally chaired by a TEG member who, as such, takes part in the TEG's decisions. However, if the Chairman of the working group is not a member of the TEG, he may vote in the TEG on subjects relevant to his working group, bringing the number of votes to 17. His vote must express the views of the majority in his working group.

A delegation of working group members can also take part in the TEG's discussions.

Finally, the TEG must provide feedback to the working group on issues where it deviates from the working group's majority position.

Conclusion

This new structure has only been in place for three months, and it is only just beginning to get into the heart of its work (in particular with the European endorsement of IFRS 9, *Financial instruments*). 2015 will therefore be a crucial testing ground for the efficiency of the new system, which seems to have been guided by the following principles:

- Respecting Mr Maystadt's recommendations while taking account of the practical constraints;
- Speaking with a single voice through the principle of consensus;
- Reinforcing the legitimacy of the organisation by enhancing the profile of decision-makers and strengthening the basis of its decisions by taking account of the impact of non-technical aspects in the context of the European public good;
- Boosting the role of standard setters at every level of the organisation while maintaining a balance between European and national organisations;
- Building on the former structure by retaining public consultation and increasing transparency.

The reform is however not complete until the nomination of the EFRAG President and the practical implementation of analysing the impacts of draft and final texts.

Lastly, it should not be forgotten that Mr Maystadt did not only recommend the reform of EFRAG. His mandate applied to the IAS Regulation as a whole, including the European Union's endorsement criteria and the Accounting Regulation Committee (ARC), which is involved in the endorsement process. With the evaluation of IFRSs in Europe conducted by the European Commission in autumn 2014, whose results are not yet published, we will doubtless have occasion to return to these topics in the future.

Events and FAQ

Frequently asked questions

IFRSs

- IFRS 5 impacts at the end of 2014 of a court ruling delivered in early 2015 obliging an entity to cease an activity within six months;
- Accounting treatment of Learning Curve Costs;
- 55% interest in an entity temporarily conferring a significant influence with put and call options that can be exercised at the end of this interim period;
- Sale and leaseback transaction?

Upcoming meetings of the IASB, the IFRS Interpretations Committee and EFRAG

IFRS		EFRAG	
IASB	Committee	Board	TEG
16-20 February	24-25 March	10 February	25-27 February
16-20 March	12-13 May	11 March	31 March – 2 April
27-30 April	14-15 July	22 April	6-8 May

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