

## EFRAG SECRETARIAT PAPER FOR PUBLIC MEETING

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### **EFRAG Research Activities** **Application issues in discounting**

#### **Objective**

- 1 The objective of this paper is to report the input from EFRAG TEG on the Research project on application issues in discounting (previously described as accounting implications of negative and low interest rates).

#### **Background on the project**

- 2 In June 2015, EFRAG TEG started a discussion on the accounting implications of negative interest rates with a specific focus on financial instruments. EFRAG Secretariat identified a number of potential issues about the application of IAS 39/ IFRS 9 *Financial Instruments*. EFRAG TEG concluded that there was no need for a formal output because either the guidance was clear, the issue had already being brought to the attention of the Interpretations Committee or it would not be appropriate to address during the completion of the endorsement advice on IFRS 9.
- 3 While updating the EFRAG Board on the status of the TEG discussions, some noted that concerns about the implications of discount rates could go beyond negative rates. It was noted that a low interest rate environment has significant impacts on the measurement of certain assets and liabilities and EFRAG Secretariat was asked to consider a broader scope for the project.
- 4 In July 2015, the EFRAG Board re-discussed the scope of the project on discounting. While it was noted that the low interest environment has raised issues that are worth investigating, the Board did not agree to have a broad project, which would take a long time to deliver, require in-depth macroeconomic and financial knowledge and potentially result in few or no recommendations.
- 5 It was also noted that the IASB has a current active project on discount rates, which is investigating discount rate requirements in IFRS, and assesses whether there any inconsistencies that the IASB should address. The IASB review includes present value measurement objectives set in individual standards, discount rate components included in the present value measurement and measurement methodology. EFRAG Board indicated that the EFRAG project should not duplicate the scope of the IASB activities.
- 6 EFRAG TEG confirmed that low or negative discount rates do not put into question the usefulness of present values. However, there could be some imperfections or gaps in the current requirements that are being highlighted in the current low interest rate environment, therefore it advised to identify narrower issues that could be addressed in short papers.
- 7 In selecting the relevant issues, EFRAG Secretariat considered that discounting in IAS 36 *Impairment of Assets* had been discussed with EFRAG TEG in the context of the Goodwill proactive project; and that discounting for pensions liabilities is

expected to be addressed in the Pensions proactive project. It also considered that presentation of remeasurements due to changes in discount rates in profit or loss or OCI is a broader issue that should not be looked at in isolation for specific assets or liabilities.

- 8 EFRAG Secretariat consulted EFRAG TEG on the relevant issues in March and confirmed that, within the constraints described above, the following could be investigated:
- (a) Whether the requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* are sufficiently clear to ensure consistency of the assumptions used to project the expected cash flows and the selection of the discount rate;
  - (b) Whether there is need for more guidance in how to determine discount rates for provisions with very long duration (such as decommissioning and environmental provisions) for which an interest-free rate may not be directly observable.
- 9 It was also suggested to re-name the project, as the focus had been moved away from negative and low interest rates.

**EFRAG TEG recommendation**

- 10 In May, EFRAG TEG discussed the EFRAG Secretariat analysis of the issues described above. EFRAG TEG did not support recommending that the IASB adds detailed guidance in IAS 37. It also concluded that there was no need for a formal output of the project and that it would be sufficient to feed the results to the IASB when its staff paper on discount rates was published.
- 11 Since EFRAG TEG did not support further activity on the identified issues and has not identified any further issues to address, it recommended to suspend the project.
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| 12 Does the EFRAG Board agree with the EFRAG TEG recommendation? |
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