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EFRAG Research Activities Update

Objective

- 1 The objective of this session is to provide the EFRAG Board with the regular update on the main research activities undertaken in the EFRAG research program. The projects included in this update are:
 - (a) Pension plans with an asset-return promise;
 - (b) Better information on intangible assets;
 - (c) Crypto assets; and
 - (d) Variable and contingent consideration.

Pension plans with an asset-return promise

- 2 EFRAG published the discussion paper *Accounting for Pension Plans with an Asset-return Promise* on 15 May 2019. The paper was presented at the July 2019 meeting of the Accounting Standards Advisory Forum.
- 3 In order to promote the paper, EFRAG has published on its website two short videos introducing the discussion paper.
- 4 The deadline for comments on the discussion paper is 15 November 2019. The comment letters received will be discussed by EFRAG TEG in January 2020. The feedback statement summarising the comments received will be the last output of the project. It is expected to be published in the first part of 2020.

Better information on intangible assets

- 5 The aims of the project, as discussed in July 2019 by EFRAG TEG, are:
 - (a) to explain how entities report on creating, maintaining and/or improving their value;
 - (b) to explain how users consume information on creating, maintaining and/or improving value, and the extent to which current reporting addresses their needs; and
 - (c) to provide suggestions on how information on creating, maintaining and/or improving value can be provided in financial reports in a manner that is useful for decisions on providing resources to the entity.
- 6 In Q1 of 2019, the EFRAG Secretariat conducted 17 interviews with academics, preparers, users, valuers and other professionals. There was a degree of consensus that information about intangibles is lacking in the primary financial statements. However, interviewees expressed a range of views regarding possible solutions to the problem. The next step in the project is to identify good examples of how entities

explain how they create, maintain and/or improve value. For this reason, the EFRAG Secretariat plans to establish **panels of users and preparers**. A call for members will be issued in December 2019. The panels will identify examples of good practices in industries that depend heavily on intangibles and, as such, have voluntarily already adjusted their external financial reporting to specifically address information needs of users of their financial information, and then examine whether and to what extent these good practices could be applied to general preparers, starting from industries in which intangibles are still not specifically covered by tailored disclosure practices.

- 7 The EFRAG Secretariat plans to issue the following **deliverables** in later stages of the research project:
 - (a) The EFRAG Secretariat has commissioned an **Academic Literature Review**. The review is close to finalisation. The EFRAG Secretariat plans to present an update on the review at the December 2019 EFRAG Board meeting.
 - (b) **Problem Description**. Gather information in order to formally define and describe the problem.
 - (c) **Input for the EFRAG comment letter on the IASB's project on Management Commentary**. This input should be finalised by H2 2020 to be ready for the expected Exposure Draft in H2 2020.
 - (d) **Key Information solution**. Depending on the outcome of the panel discussions, research possible solutions to the identified problems. This phase is expected to be finalised in H2 2020.
 - (e) **Testing**: testing the identified solutions on different entities including, if possible, testing with members of the task force of the European Lab@EFRAG. This phase is expected to be finalised in 2021.
- 8 In the course of the research project, the EFRAG Secretariat plans to *collaborate* with the standard setters and organisations that have already published reports on intangibles. This includes collaboration with the UK FRC, KASB, and ICAS. Furthermore, the EFRAG Secretariat foresees the possibilities for interaction with the European Lab@EFRAG on its project *Reporting of Non-financial Risks and Opportunities, and Linkage to the Business Model*.

Crypto-assets

- 9 **Approach**: The crypto-assets project is being conducted in two phases:
 - (a) Phase I focuses on the problem definition and primarily aims to identify accounting issues related to crypto-assets and related considerations (e.g. significance of crypto-assets, associated rights and obligations and regulatory requirements).
 - (b) Phase II will focus on considering proposals to address any identified accounting issues, including where clarification or enhancement of requirements in IFRS Standards may be appropriate.
- 10 **Scope**: The scope of the project covers the main categories of crypto-assets (cryptocurrencies and different types of tokens). Furthermore, the project includes the following crypto-assets related activities: issuers (e.g. ICOs); holders; and related services. The analysis of crypto-assets activities is focused on entities and not individuals.
- 11 **Progress**: The progress on different aspects of the project is outlined below:
 - (a) During H1 2019, the project team conducted desktop research on different aspects of crypto-assets including: the prevalence of related activities

amongst entities, emergent national standard setter guidance and accountancy firm literature on accounting treatment, regulatory requirements across a selection of key global jurisdictions and an assessment of the unique economic characteristics, rights and obligations that can inform the accounting treatment of crypto-assets.

- (b) *Issue papers discussed with EFRAG TEG*: The project team presented an issues paper on ICOs and custodial services at May 2019 EFRAG TEG meeting and an issues paper on the holders' perspective at the September EFRAG TEG-CFSS meeting. The two meetings provided suggestions to help focus on accounting implications arising from crypto-assets (e.g. consideration of accounting for analogous transactions such as commodities, barter transactions) and supported a focus on understanding of the underlying rights and obligations.
 - (c) *Outreach to experts*: During October, the project team conducted interviews with 17 crypto-assets experts who had responded to a public call made in early September. The outreach was intended to validate the project team findings contained in the issue papers presented to EFRAG TEG and EFRAG CFSS and to fill gaps in aspects that are difficult to ascertain from desktop research. The outreach findings have to a large extent confirmed the project team findings and also identified relevant country-specific regulations and market developments.
 - (d) *Consultancy support*: During November, the project team is working with a subject-matter expert from a consultancy firm to further address issues that have not been adequately resolved by the desktop research and outreach interviews (e.g. outlining the rights and obligations of different crypto-assets and examples of unique economic characteristics that have accounting implications).
- 12 **Timeline of deliverables**: Based on the EFRAG TEG recommendation and to facilitate stakeholder feedback, there will be two discussion papers during the problem definition phase, namely:
- (a) A discussion paper that combines the issuance and holding of crypto-assets, as there are likely to be symmetry between issuer and holder accounting issues. The draft discussion paper will be discussed at the December and January 2020 EFRAG TEG meetings and, depending on TEG feedback, presented to the EFRAG Board at the February 2020 meeting.
 - (b) A discussion paper that focuses on services related to crypto assets (i.e. custodial services and mining) will be issued later in 2020.

Variable and contingent consideration

- 13 The objectives of EFRAG's project on variable and contingent consideration are:
- (a) to identify the accounting issues around variable and contingent consideration;
 - (b) to outline the information needs for users of financial statements in regard to variable and contingent considerations based on the objectives of general-purpose financial reporting in the IASB's *Conceptual Framework for Financial Reporting* and consultation with the EFRAG User Panel;
 - (c) to summarise and compare the requirements in IFRS Standards and assess the rationale (or lack thereof) for any differences;
 - (d) to develop a number of accounting alternatives and illustrate their relevant strengths and limitations; and

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- (e) to consider improvements in presentation and disclosure.
- 14 In order to identify accounting issues related to variable and contingent consideration, the EFRAG Secretariat organised conference calls with experts from accounting firms in the first part of 2019. The input received from these calls has subsequently been considered by EFRAG TEG.
- 15 In addition, possible relevant guidance in existing IFRS Standards, Interpretations (and IFRS IC agenda decisions) has been located. This guidance will be assessed and the rationale (or lack thereof) for any differences will be analysed.
- 16 EFRAG TEG has decided to start with a relatively narrow definition of variable and contingent consideration. It may at a later stage decide to broaden the definition.
- 17 The scope of the project has been compared with the scope of the FRC project on variable and contingent consideration. The scopes of the two projects are different and the projects can thus complement rather than compete with each other.
- 18 The timetable for the remaining activities related to the project is provided below.

Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Determine definition and scope				
	Consider differences in guidance and reasons for differences			
		Assessing users' information needs		
			Developing accounting alternatives	
				Consider presentation and disclosure
Drafting discussion paper				
				Issue discussion paper

Question for the EFRAG Board

- 19 Does the EFRAG Board have any comments on this update?