



EFRAG UPDATE

MARCH 2020

The EFRAG Update is published on a monthly basis to inform constituents about due process publications, public technical discussions held and decisions taken during that month.

Coronavirus – Update on EFRAG’s meetings and events

The coronavirus (COVID-19) pandemic is affecting us all and is leading to far-reaching health and safety measures. EFRAG complies with the relevant Belgian measures and prioritises the health and well-being of our staff and stakeholders whilst continuing to operate as effectively as possible.

- EFRAG’s offices are closed;
- All physical EFRAG meetings are turned into webcast meetings until further notice;
- Digital access to public meetings of the EFRAG Board, EFRAG TEG and EFRAG CFSS is provided as usual for those who wish to observe meetings remotely;
- All our public events and outreaches till the end of April have been cancelled, postponed or turned into electronic format; and
- EFRAG staff is working from home and is contactable by email, Teams or phone.

PUBLICATIONS

EFRAG pre-consultation on the IASB project *IBOR Phase 2*

On 31 March 2020, in order to allow for additional consultation time, EFRAG published a pre-consultation document, in anticipation of the IASB's forthcoming Exposure Draft *IBOR Phase 2* ('the ED'). The pre-consultation document presents EFRAG TEG views on the IASB tentative decisions. EFRAG's draft comment letter expected to be issued in April (as soon as feasible following the issuance of the IASB ED) will replace this pre-consultation document.

EFRAG seeks constituents' views on the IASB proposals by 15 May 2020.

For more details, please see the [EFRAG website](#).

EFRAG Advisory Panel on Intangibles starts its activities

Following a public call for candidates, as part of EFRAG ongoing research activity, on 13 March 2020, EFRAG has announced the composition of the EFRAG Advisory Panel on Intangibles ('API'). The EFRAG API is composed by 7 preparers, 5 users/investors, 4 valuation experts, with 10 different nationalities in total.

The EFRAG API will play an important role in providing accounting and industry expertise to EFRAG TEG, on specific aspects of intangibles. The EFRAG API aims at facilitating dialogue between users and preparers, identifying issues on the current guidance and helping practical



solutions to emerge. It will provide views on what information investors need (but cannot find in the financial statements) on how an entity creates, maintains, expands and/or preserves value and what information can be prepared.

The EFRAG API held its kick-off webcast meeting on 27 March 2020.

For more details, please see the [EFRAG website](#).

Article on joint networking event of EFRAG and the IFRS Foundation Trustees

On 27 March 2020, EFRAG and the IFRS Foundation Trustees jointly published an article on the networking stakeholder event co-hosted with the IFRS Foundation Trustees on 18 February 2020.

For more details, please see the [EFRAG website](#).

EFRAG requests to the IASB longer consultation periods in the context of the pandemic

On 27 March 2020, EFRAG issued a letter to the IASB requesting to consider extending some of the consultation periods on recent or soon to be issued publications, providing constituents with additional time to work through the consultation documents, and obtain the required feedback through outreaches and other events, in the context of the pandemic.

For more details, please see the [EFRAG website](#).

EFRAG Letter to the IASB on amendments to IFRS17 *Insurance Contracts*

On 26 March 2020, EFRAG published a letter that was sent to the IASB acknowledging the progress made so far and drawing attention to the annual cohort requirement.

For more details, please see the [EFRAG website](#).

Field-test on the IASB's project *Primary Financial Statements*

On 6 March 2020, EFRAG published an invitation for companies to participate in the field-test on the IASB's project *Primary Financial Statements*. EFRAG, in close coordination with European National Standard Setters and the IASB, will conduct field-testing of the IASB's proposals included in the Exposure Draft ED/2019/7 *General Presentation and Disclosures*, which were published in December 2019. The purpose of the field-testing is to identify potential implementation and application concerns, to determine whether there is a need for additional guidance, and to estimate the effort required to implement and apply the proposals.

Participants are welcomed to express interest to participate in the field-tests until 3 April 2020.

For more details, please see the [EFRAG website](#).

Call for candidates to become members of the new Project Task Force on reporting of non-financial risks and opportunities and linkage to the business model of the European Lab

On 13 March, the European Lab launched its call for candidates to become members of its new Project Task Force on reporting of non-financial risks and opportunities and linkage to the business model. Applications should be sent to nominations@efrag.org by 10 April 2020.



Expressions of interest are also sought for those who would like to participate in future outreach events of the new project.

For more details, please see the [EFRAG website](#).

OPEN CONSULTATIONS

Title and description	Closing date
EFRAG's draft comment letter on the IASB Exposure Draft ED/2019/7 <i>General Presentation and Disclosures (Primary Financial Statements)</i>	19 June 2020
EFRAG pre-consultation on the IASB project <i>IBOR Phase 2</i>	15 May 2020
EFRAG's field-tests on the IASB's project <i>Primary Financial Statements</i>	3 April 2020

For more information please see [EFRAG's consultations page](#).

EFRAG BOARD

Meeting

The EFRAG Board met on [17 March 2020](#) and discussed the following topics:

IFRS 17 Insurance Contracts

The EFRAG Board received an update on the decisions taken by the IASB and activities for the preparation of the draft endorsement advice. The EFRAG Board decided to write a letter to the IASB to express concerns about the Annual Cohort requirement. The EFRAG Board noted that the EFRAG planned activities for the preparation of the endorsement advice are on track, as well as the IASB's activities expected to lead to the issuance of the standard in June 2020. The EFRAG Board confirmed the timeline of the EFRAG endorsement activities and agreed to start working on the DEA on the deferral of IFRS 9 with an accelerated process.

IASB Project *IBOR Reform and its Effects on Financial Reporting – Phase 2*

The EFRAG Board was provided with an update on the status of the project. The next step will be the publication of a pre-consultation draft comment letter after its approval by EFRAG TEG.

IASB Research Project *Goodwill and Impairment*

The EFRAG Board was provided with a update on the IASB research project and on the EFRAG TEG preliminary views on the IASB tentative decisions, in preparation of the EFRAG draft comment letter.



EFRAG Research Projects

The EFRAG Board received an update on the EFRAG Research Activities.

Update of work plan and any other matters

The EFRAG Board approved the technical work plan. Difficulties caused by the COVID-19 outbreak should be taken into consideration.

Next meeting

The EFRAG Board will next meet (webcast meeting) on [21 April 2020](#).

March 2020 written procedures

The EFRAG Board has not approved any documents using written procedures in March.

Expected April 2020 written procedures

The EFRAG Board is expected to approve the following document, using written procedures in April:

- EFRAG's Draft Endorsement Advice on the IASB's Amendments to IAS 1 *Classification of Liabilities as Current or Non-current*.

EFRAG TECHNICAL EXPERT GROUP (TEG)

Meeting

EFRAG TEG met on [4-5 March 2020](#) and discussed the following topics:

IFRS 17 Insurance Contracts

EFRAG TEG members discussed the following chapters of the draft endorsement advice of IFRS 17: IFRS 17 and small insurers, prohibition to apply the risk mitigation approach retrospectively on transition, US GAAP and IFRS 17.

EFRAG TEG members also discussed the February IASB tentative decisions.

No decisions were taken at the meeting.

IASB Project *IBOR Reform and its Effects on Financial Reporting* – Phase 2

EFRAG TEG discussed the IASB tentative decisions taken during January and February meetings together with the IASB and EFRAG workplan. EFRAG TEG members expressed support for the IASB tentative decisions, including the sweep issue to ring fence the definition of a modification only to changes made in the context of IBOR Reform and extending the relief period for separately identifiable requirement to 24 instead of 12 months.

EFRAG TEG agreed with the proposed EFRAG fast-track procedure to enable the timely endorsement of the amendments to the Phase 2 of the project.

No decisions were taken at the meeting.



IASB Project *Provisions—Targeted Improvements*

EFRAG TEG members discussed the proposed three targeted improvements to IAS 37 *Provision, Contingent Liabilities and Contingent Assets*: aligning the definition of liability in IAS 37 and the *Conceptual Framework for Financial Reporting*, clarifying which costs to include in the measurement of a provision, and whether the rate at which an entity discounts a provision should reflect the entity's own credit risk.

EFRAG TEG members welcomed the three targeted amendments to IAS 37 and acknowledged the balance of the overall workload in the IASB working plan and the need to focus on the most urgent issues.

No decisions were taken at the meeting.

IASB Publication *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*

EFRAG TEG members discussed the EFRAG draft endorsement advice (DEA) on the IASB's Amendments to IAS 1 *Presentation of Financial Statements - Classification of Liabilities as Current or Non-current*.

EFRAG TEG members agreed to recommend the DEA to the EFRAG Board, subject to minor drafting comments.

IASB Research Project *Business Combinations under Common Control*

EFRAG TEG members discussed how to apply a predecessor approach and a current value approach to business combinations under common control (BCUCC). Members expressed mixed views which measurement approach would better reflect the economics of the transaction. Some members disagreed with using a predecessor approach to BCUCC as the approach was not in line with the measurement requirements of the *Conceptual Framework*. Other members supported a predecessor approach where the receiving entity would use the carrying amount included in the consolidated financial statements of the transferred entity's controlling party.

No decisions were taken at the meeting.

EFRAG Research Project *Crypto Assets*

EFRAG TEG members provided feedback on the latest draft of the crypto-assets discussion paper and discussed the four options for possible development of IFRS requirements. For enhanced clarity on the options and to reduce overlapping content, it was agreed to limit the analysis to three options without characterising them as either short-term or medium to long-term solutions. The options would include an option for no action by the IASB necessitating that preparers have to develop their own accounting policy whenever IFRS Standards are considered not to address the required accounting for crypto-assets. The other two options would be on either the amendment of existing IFRS Standards or the development of a new crypto-assets specific standard.

No decisions were taken at the meeting.

EFRAG Research Project *Accounting for Pension Plans with an Asset-return Promise*

EFRAG published the discussion paper *Accounting for Pension Plans with an Asset-return Promise* on 15 May 2019. The discussion paper considered three different alternatives to account for defined benefit pension plans. Although the pension benefits under these plans depend on the return on plan assets, this linkage is not reflected when applying the



requirements in IAS 19 *Employee Benefits*, as the pension obligation and the plan assets are measured differently.

EFRAG TEG considered the comments received in response to the discussion paper and EFRAG's feedback statement. Of the three alternatives suggested, respondents particularly favoured 'the capped asset return approach', a narrow scope amendment to be made to IAS 19. Some respondents, however, suggested that nothing should be done, as practical solutions were developed in some jurisdictions.

EFRAG TEG members noted that the IASB is now examining whether an amendment to IAS 19 in line with the approach favoured by the respondents should be introduced. It was accordingly assessed that the IASB had taken over where the EFRAG research project had ended and no further EFRAG activities should be performed on the project.

No decisions were taken at the meeting.

IASB Research Project *Pension Benefits that Depend on Asset Returns*

EFRAG TEG members discussed the IASB project and indicated that the '*capped*' *ultimate costs adjustment* model could incorporate the backload correction.

No decisions were taken at the meeting.

IASB Research Project *Goodwill and Impairment*

EFRAG TEG members discussed whether, and if so, what additional evidence/information should be collected before EFRAG issues its final comment letter on the IASB's forthcoming discussion paper on goodwill.

No decisions were taken at the meeting.

Meeting 26 March

EFRAG TEG met (webcast meeting) on [26 March 2020](#) and discussed the following topics:

IFRS 17 *Insurance Contracts*

EFRAG TEG discussed various topics for the draft endorsement advice of IFRS 17: IFRS 17 and mutual entities, hedge accounting in the context of IFRS 17 and relationship between IFRS 17 and IFRS 9 *Financial Instruments*. EFRAG TEG agreed to incorporate the results of the discussion in the draft endorsement advice. In addition, EFRAG TEG discussed the March IASB staff papers including assessing the variable fee criteria at contract versus group level, EFRAG TEG agreed with the new version of the limited update to the case studies.

No decisions were taken at the meeting.

IASB Project *IBOR Reform and its Effects on Financial Reporting – Phase 2*

EFRAG TEG members discussed EFRAG's pre-consultation document of the draft comment letter to the forthcoming IASB exposure draft on *IBOR Reform and its Effects on Financial Reporting – Phase 2* expected to be published in April 2020.

EFRAG TEG members agreed to publish EFRAG's pre-consultation document, subject to minor drafting amendments.



IASB Research Project *Goodwill and Impairment*

EFRAG TEG discussed EFRAG draft comment letter on the IASB's Discussion Paper 2020/1 *Business Combinations—Disclosures, Goodwill and Impairment* issued on 19 March 2020 (the 'DP'). EFRAG TEG members made comments and drafting suggestions on questions 2-6 of the DP. The rest of the questions covered in the DP will be considered at a future meeting.

No decisions were taken at the meeting.

EFRAG Research Project *Crypto Assets*

EFRAG TEG members discussed and were asked to recommend for EFRAG Board approval a draft EFRAG discussion paper on the accounting for Crypto-assets – Holders and Issuers.

EFRAG TEG approved the discussion paper.

Next meeting

EFRAG TEG will next meet (webcast meeting) on [16 April 2020](#).

JOINT EFRAG TECHNICAL EXPERT GROUP (TEG) - EFRAG USER PANEL

Meeting

EFRAG TEG and EFRAG User Panel met on [4 March 2020](#) and discussed the following topics:

IASB Project *Primary Financial Statements*

EFRAG TEG and EFRAG User Panel received a joint presentation from the IASB and EFRAG staff on the IASB Exposure Draft on *General Presentation and Disclosures*. Members discussed and provided comments on the EFRAG draft comment letter on the IASB Exposure Draft.

IASB Project *Rate-regulated Activities*

EFRAG TEG and EFRAG User Panel members were informed that the scope of the upcoming exposure draft on the IASB's rate-regulated activities might affect activities of entities that operate outside of the utility sector (for which rate-regulation is typically common). The objective of the session was to create awareness of the scope of the project and ask users of financial statements to inform the EFRAG Secretariat about entities that could potentially be impacted.

IASB Research Project *Goodwill and Impairment*

EFRAG User Panel members discussed the tentative views expressed by EFRAG TEG in relation to the IASB's project *Goodwill and Impairment*. EFRAG User Panel members indicated that the current impairment accounting needs improvement, among other things due to the shielding effect, which is contributing to the 'too little and too late' issue. Members listed some possible solutions in addition to reintroducing goodwill amortisation (on which different views were expressed, should the issue be reopened) as for example improving the guidance on goodwill allocation to CGUs.



EFRAG TEG and EFRAG User Panel members generally agreed that additional disclosures can help assessing whether a business combination was a good investment decision and whether, after the acquisition, the acquired business was performing as expected. However, members highlighted that these disclosures would only be relevant for a short period after the acquisition (e.g. for the three first years).

EFRAG TEG and EFRAG User Panel members did not consider that the IASB's tentative proposal to include a subtotal of equity before goodwill would provide substantial added value.

EFRAG Research Project *Better Information on Intangibles*

EFRAG TEG and EFRAG User Panel members discussed how to foster and optimise engagement with relevant stakeholders for the EFRAG Research Project *Better Information on Intangibles*. Some EFRAG User Panel and EFRAG TEG members reiterated their view that the project was right in looking holistically at better information on how entities report on creating, maintaining and/or improving value rather than focusing only on the debate about capitalisation of expenses. They recommended providing more information in the financial report or management commentary as for example KPIs.

JOINT EFRAG TECHNICAL EXPERT GROUP (TEG) - EFRAG CONSULTATIVE FORUM OF STANDARD SETTERS (CFSS)

Meeting

EFRAG TEG and EFRAG Consultative Forum of Standard Setters (EFRAG CFSS) held a webcast meeting on [25 March 2020](#) and discussed the following topics:

IASB Project *IBOR Reform and its Effects on Financial Reporting – Phase 2*

EFRAG CFSS and EFRAG TEG members received an update on the project and were invited to provide comments by 15 May 2020 on EFRAG's views. A pre-consultation document will announce the EFRAG views on the basis of the IASB tentative decisions and will be replaced by the EFRAG draft comment letter to the forthcoming IASB exposure draft *on IBOR Reform and its Effects on Financial Reporting – Phase 2*, expected to be published in April 2020.

IASB Exposure Draft *General Presentation and Disclosures (Primary Financial Statements)*

EFRAG CFSS and EFRAG TEG members received a presentation on the IASB Exposure Draft *General Presentation and Disclosures* ('the ED') and EFRAG draft comment letter. Some EFRAG CFSS and EFRAG TEG members raised questions on the presentation of some income and expenses (e.g. interest on lease liabilities and interest on consideration paid in advance or in arrears under IFRS 15 *Revenue Recognition*) given the new categories defined by the IASB and highlighted the importance of having clear guidance on the notion of an entity's 'main business activity'.

When referring to the subtotals specified by IFRS Standards that are not management performance measures (MPMs), some members considered that the subtotal *operating profit before amortisation, depreciation and impairments* should not be an MPM.



Finally, some members noted that the IASB's definition of unusual items was very narrow when compared to common practice and that the ED was not clear on whether unusual items could be presented in the statement of profit or loss, particularly when an entity presents operating expenses by function.

IASB Research Project *Business Combinations under Common Control*

EFRAG CFSS and EFRAG TEG members were invited to comment on a questionnaire on business combinations under common control (BCUCC) to collect information about the pervasiveness of such transactions in different European jurisdictions and any existing guidance or established current practise to account for BCUCC. Members were also asked to express their views regarding the IASB tentative decisions on the project so far.

IASB Research Project *Goodwill and Impairment*

EFRAG CFSS and EFRAG TEG members discussed the IASB tentative decisions expected to be included in the Discussion Paper ('the DP') *Business Combinations – Disclosures, Goodwill and Impairment*. Some members indicated that the tentative decisions taken by the IASB in its DP on some controversial matters (as for example goodwill amortisation vs impairment-only approach) could make it difficult to draw the stakeholder's attention and hence to receive input for their planned outreach activities. Members would had preferred the DP to have more open questions in order to stimulate the debate.

In addition, EFRAG CFSS and EFRAG TEG members discussed the research paper *Goodwill: Improvements to Subsequent Accounting and an Update of the Qualitative Study* from the staff of HKICPA and ASBJ and the FASB presentation *Identifiable Intangible Assets and Subsequent Accounting for Goodwill - Comment Letter and Roundtable General Feedback*.

Lastly, EFRAG CFSS and EFRAG TEG members received a presentation by member of the EFRAG Academic Panel, Professor Thorsten Sellhorn on academic literature on goodwill.

Next meeting

EFRAG CFSS and EFRAG TEG will next meet on [1 July 2020](#).



EUROPEAN REPORTING LAB

European Lab Steering Group (European Lab SG)

The European Lab SG met on 6 March 2020. Members approved the launch of the call for Project Task Force candidates for the second project of the European Lab on *Reporting of non-financial risks and opportunities, and linkage to the business model*.

Members also discussed communication actions around the report of the first European Lab Project Task Force on Climate-related Reporting. Members noted that the feedback received so far had been positive and considered it important to continue the efforts to disseminate the report as widely as possible.

Lastly, members decided to have an additional meeting (scheduled for 22 April 2020) to approve the selection of the members of the new Project Task Force and discuss other matters related to the European Lab activities.