

EFRAG STAFF PAPER FOR PUBLIC MEETING

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EFRAG Research activities – what are they trying to achieve, and how?

Objective

- 1 The objective of this paper is to assess if there is a shared understanding of the scope and objectives of our Research activities and to enhance the effectiveness and efficiency of the management of the projects.

What do we mean by research?

- 2 Research is an inquiry that investigates accounting topics, and assesses whether the existing requirements under IFRS are sufficient or can be improved to produce more relevant information or be less complex and easier to apply.
- 3 Therefore in some cases, EFRAG would investigate the reporting for transactions that IFRS do not currently address; in other cases, it will consider how the existing requirements work in practice.
- 4 In earlier years, EFRAG focused only on major topics (such as income taxes, performance reporting, Disclosure Framework); more recently, EFRAG has also investigated narrower implementation issues.
- 5 Normally, an EFRAG Research project results in the publication of a paper. EFRAG has used different formats of papers – from 2013, we have added to the usual Discussion Paper format shorter documents such as the Bulletins and the Short-Discussion Papers. More recently, EFRAG published its first quantitative study.
- 6 In most cases, papers discuss the accounting topic and present possible alternatives without EFRAG taking a preferred position. The alternatives discussed may involve additions and/or changes to recognition, measurement and/or presentation requirements under IFRS.
- 7 Discussion papers are subject to the usual EFRAG due process: they are debated in public EFRAG meetings and have a consultation period open to constituents. A feedback statement summarising the comments received is eventually released. EFRAG may or not decide to further develop a project at that stage based on the feedback received.
- 8 EFRAG Research activities are not carried out in a vacuum and EFRAG must be able to leverage on the cooperation with National Standard Setters in Europe and other organisations.
- 9 Working in partnership is not only about being more efficient, but an essential component of the strategy. National Standard Setters in Europe are best placed to provide insight on specific fact patterns in their jurisdictions that create application issues, or that could be used to field-test any potential solution being developed. Other organisations can contribute from their specific perspective and expertise.

Management of projects and respective roles

- 10 The following flowchart offers an overview of the Secretariat's view on the process of the EFRAG Research projects:



- 11 The topics on the current Research agenda have been identified during the EFRAG agenda consultation and approved by the EFRAG Board. However, we envisage the list to be a dynamic document that is regularly reviewed to add new projects that are relevant to European constituents and – as explained below – occasionally drop projects when it is deemed that they are not likely to reach a positive outcome.
- 12 There can be different sources for new potential EFRAG Research projects:
- EFRAG's discussions and comments on new IASB proposals and final Standards may highlight that the guidance is not appropriate for certain transactions;
 - IFRIC rejections;
 - Input from National Standard Setters;
 - Input from EFRAG Working Groups;
 - IASB's Research programme;
 - Input from constituents
- 13 Good project management depends from effective communication and cooperation between EFRAG Board, EFRAG TEG and the Secretariat in their respective roles. Regular updates on the status will be provided to the EFRAG Board during the project development until the presentation for approval to publication.
- 14 Compared to the current practice, EFRAG Secretariat thinks that there is room for improvement in the management of the project. Sometimes EFRAG TEG discussions go back to points that have been addressed before and sometimes the Secretariat does not present a clear view of the expected progression of the work and how a paper fits into the project.

- 15 EFRAG Secretariat suggests that for each Research session, the cover note or background papers will include a summary of the previous discussions, the list of topics discussed in earlier sessions and an indication of the planned next steps.
- 16 However, it should be acknowledged that accurate planning on Research projects is difficult to achieve, and their progress depends on a number of internal and external constraints.

Question for EFRAG Board and TEG

- 17 Are there additional suggestions on how to improve the effectiveness and efficiency of EFRAG Research projects?

Context

- 18 EFRAG Research activities include two different work streams. One work stream is the proactive monitoring of the IASB Research programme, which currently includes 8 projects at different stages; the second is EFRAG's own Research activities. The ultimate strategic goal is common to both work streams – influencing the IASB work from a European perspective - but they usually operate in different ways, although there is no total separation between them.
- 19 The objective of the proactive monitoring is partly to have EFRAG ready to comment if and when the IASB research attains the standard-setting stage (normally with the publication of a Discussion Paper). EFRAG also provides input earlier in the process from time to time – for example, the EFRAG Secretariat paper on Measurement that was presented to the ASAF. EFRAG will increasingly look to obtain appropriate evidence to make our interventions more compelling and better informed.
- 20 EFRAG's own Research activities have a different structure in the sense that we have control over the following:
 - (a) The topic of the project;
 - (b) The timing of our activities;
 - (c) The alternatives that we can explore; and
 - (d) The output of the project.
- 21 However, EFRAG Secretariat notes that the ability to influence IASB requires a certain degree of discipline in using the flexibility allowed by our own Research activities. We offer four propositions below and we discuss their implications.

Proposition number 1: Research is about developing innovative ideas

- 22 EFRAG own Research projects need to address issues for which the IASB has not identified a satisfactory solution. The root cause of the issue may be that the underlying transaction is complex – take for instance macro-hedging; or there may be a fundamental conceptual difficulty, like when discussing the nature of goodwill and whether purchased goodwill is consumed over time.
- 23 For this reason, it is realistic to assume that any viable solution requires a certain degree of innovative thinking. This may relate to the nature or mechanics of the solution, and/or to the rationale supporting it.

- 24 Moreover, EFRAG Secretariat thinks that EFRAG proposals should be sufficiently clear and articulate. This does not imply that EFRAG moves away from its support for principle-based Standards, but an effort should be made to be specific in our proposals. Generic suggestions that 'information should be relevant' will probably get wide support but are unlikely to help in solving complex issues. As an example, if EFRAG were to propose the reintroduction of annual amortisation for goodwill, EFRAG Secretariat believes that it would also need to express some recommendations on how to assess its useful life.
- 25 EFRAG should make an effort to develop simple and pragmatic solutions when possible, but cost-effectiveness should be deemed as a constraint and not as an objective in itself.
- 26 More in general, EFRAG Secretariat believes that there are some approaches that are unlikely to be effective in influencing the IASB, such as suggesting:
- (a) To replace recognition with disclosures;
 - (b) To allow free choices among alternative accounting options;
 - (c) To propose exceptions from general requirements for specific transactions without a clear conceptual basis.

Proposition number 2: Research is about presenting good arguments on a range of alternatives

- 27 As mentioned above, EFRAG's own Research by definition will address long-standing issues that the IASB has not been able to solve and that are relevant for Europe.
- 28 It is likely that constituents hold different, and sometimes strong, views on some of these issues. If divergent established accounting practices exist across countries and/or industries, constituents (especially preparers, but possibly also users) will likely tend to reject changes.
- 29 EFRAG is not an accounting Standard setter and should rather aim to play the role of a facilitator. For this, the most important contribution is to clearly articulate advantages and disadvantages of different alternatives rather than advocating for one specific solution.
- 30 Good supporting arguments do not only concern a sound conceptual analysis based on the qualitative characteristics of useful financial information; but also – to the extent possible - field-testing of the proposed solutions.
- 31 At the same time, the final output should not be a simple list of all the possible approaches and EFRAG should aim to express a preference on one or a limited number of alternatives based on the weight of the arguments. To offer different ideas favours the debate among constituents, but if there is no indication of any preference, then the IASB does not receive any clear input and may conclude that any solution is equally acceptable to Europe. For instance, the EFRAG DP on Business Combinations under Common Control proposed three mutually exclusive alternatives (always apply IFRS 3 to BCUCC; never apply IFRS 3; or apply in some circumstances only). Not expressing any preferred view limited the usefulness of the paper.

Proposition number 3: Research projects need sufficient time and multiple discussions

- 32 For the reasons above, there must be some realistic expectation when assessing the timing to completion of Research projects.

- 33 If we look at the recent history of the IASB, we can see that their major projects (but also some of the minor ones) have taken a considerable amount of time to be completed – Leases, Revenue Recognition and Financial Instruments all took more than 6 years between the publication of the Discussion Paper and the final Standard – with some of the topics in each project being discussed multiple times before reaching the final position.
- 34 While it is true that the IASB has a more extensive due process, it should be noted that it has full time Board members, so there is a continuous interaction between the IASB staff and their Board. This is not the case for EFRAG.
- 35 Moreover, the style of EFRAG discussions are slightly different from the discussions at the IASB. In EFRAG TEG Research sessions, the discussion is oriented to develop ideas and possibly build consensus. EFRAG TEG members are not generally asked to vote on the alternatives presented in the Secretariat papers and often there are no formal decisions taken in meetings.
- 36 EFRAG's style of discussion allows for a wider exchange of ideas. However it may lead to a slower pace – especially when fundamental questions remain open. In this case it may be necessary to go back and re-address some issues.

Proposition number 4: Research projects will occasionally not reach a positive outcome

- 37 When starting a project, EFRAG needs a clearly defined research question and solid evidence that the topic is a relevant issue in Europe. However, at the initial stage solutions, or their supporting arguments, will still be unknown or under-developed. This is not only because – as mentioned above – we need innovative ideas, but also it is important in the early stages that preconceived ideas would not limit the range of discussion.
- 38 The success depends on the Secretariat's ability to identify and develop appropriate solutions with input from EFRAG TEG and relevant Working Groups and Advisory Panels and EFRAG TEG and Board reaching consensus on the content of the final outcome – this does not necessarily imply a consensus around the right solution, but at least around the definition of the problem, the analysis offered and the fact that the alternatives offered have the potential to enhance financial reporting or at least simplify it without a loss in relevance.
- 39 Occasionally, EFRAG may not be able to achieve these results and it must be accepted that in this case a project will be abandoned. There are examples of similar conclusions for the IASB or IFRIC activities – IFRIC suspended its project on pensions with promises linked to the return on assets when it concluded that it could not find the right scope; and a project on variable payments for the acquisition of property, plant and equipment was abandoned when it was concluded that the scope was too broad to find a solution within the confines of the existing Standards.

Question for EFRAG Board and TEG

- 40 Do you agree that the four propositions are accurate in relation to EFRAG Research activities?