

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

EFRAG Research Agenda Consultation

Summary of responses

Objective

- 1 The objective of this paper is to provide EFRAG TEG with an analysis of the responses received to EFRAG *Research Agenda Consultation* (the Consultation) and ask EFRAG TEG which new Research projects they would recommend to the EFRAG Board.

Introduction

- 2 EFRAG published the Consultation on 5 April and asked for feedback by 1 June 2018. The Consultation asked for views on ways to assess and improve the effectiveness of EFRAG Research activities and new Research topics. Since many of the EFRAG active Research projects will be reaching their final stage in 2018, EFRAG is looking to add new Research projects to its agenda.

Improving the effectiveness of EFRAG's Research activities

- 3 A key objective of EFRAG's Research activities is to influence the development of IFRS Standards, by ensuring that the IASB gives priority to topics that are relevant to European constituents, and developing its projects considering the preferred (or at least acceptable) solutions for European constituents.
- 4 Teaming up with European National Standard Setters, or other global partners, on Research work of common interest is a useful way to pool resources and develop views in a more unified and cost-effective way.
- 5 Another important aspect of EFRAG's Research work, for which there has been a consistent call, is to ensure that standard-setting and accounting research to be more evidence-based. EFRAG has been trying to accommodate this request both in developing its endorsement advice to the European Commission, in particular in its impact analysis, and its Research activities.

New topics for EFRAG Research

- 6 In its Consultation, EFRAG tentatively proposed five Research Agenda topics around two main themes.
 - (a) Addressing new developments
 - (i) Better information on intangible assets; and
 - (ii) Cryptocurrencies.
 - (b) Enhancing current financial reporting
 - (i) Derecognition.
 - (ii) Transaction-related costs; and

- (iii) Variable and contingent payments.
- 7 For each of the topics, the Consultation presented a brief description of the issues and objectives of undertaking a project. EFRAG considered that for each project ultimately selected, there should be an assessment of the specific information needs for users as well as some type of quantitative assessment.
- 8 When identifying the topics, a number of factors have been considered:
- (a) Where the topic currently sits on the IASB work plan.
 - (b) EFRAG publications in recent years.
 - (c) How the EFRAG Research could be used to influence the IASB work.
 - (d) Activities by and potential cooperation with other Standard Setters; and
 - (e) How evidence could be collected.
- 9 The purpose of this session is to identify which new topics should be recommended to be added to the EFRAG Research agenda. Additional activities may rise out of the EC's *Action Plan on Financing Sustainable Growth* and the establishment of the European Corporate Reporting Lab. Those activities are outside the scope of this discussion.

Possible topics to be added to the Research agenda

- 10 Respondents were supportive of EFRAG's research work, noting that EFRAG has a valuable role to play in the global debate of IFRS Standards, and welcomed initiatives to enhance the effectiveness of ongoing research in order to influence future standard setting development.
- 11 At the date of preparing this analysis, EFRAG received 24 responses, the majority of which were from national standard setters, business associations and auditing profession. The remaining respondents were private persons, academics and a user organisation EFFAS (European Federation of Financial Analysts). Appendix 1 includes the list of respondents. In accordance with EFRAG procedures, a full feedback statement will be published in due course.
- 12 Of the five potential research projects proposed by EFRAG the following three received the most support from constituents:
- (a) *Better information on intangible assets*. 13 respondents rated it as a high¹; 3 – as medium² and 4 – as low³ priority project.
 - (b) *Cryptocurrencies*. 10 respondents rated it as a high; 6 – as medium and 5 – as low priority; and
 - (c) *Variable and contingent payments*. 7 respondents rated it as a high; 8 – as medium and 7 – as low priority project.
- 13 Respondents suggested several other topics, out of which the following were recommended by more than one respondent:
- (a) *Equity-liability distinction*. It was suggested that EFRAG starts its own project in parallel with the IASB FICE project.
 - (b) *Equity method of accounting*.

¹ High – ratings 4 and 5

² Medium – rating 3

³ Low – ratings 1 and 2

- (c) *Work on Non-financial information (NFI) and sustainability reporting and its integration with financial information (FI).*
- 14 Other topics recommended by generally only one respondent included:
- (a) Accounting in a circular economy.
 - (b) Inconsistency in existing IFRS standards in using different *discount rates*.
 - (a) Determining the interest cost component of pension cost.
 - (b) Uncertainty in financial reporting.
 - (c) Accounting for expenses including the nature, timing and uncertainty.
 - (d) Pollutant pricing mechanisms.
 - (e) Provisions.
 - (f) Extractive activities.
 - (g) Principal versus agent relationships.
 - (h) Interpretation issues in IAS 41 *Agriculture*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*.

EFRAG Secretariat recommendation

- 15 The EFRAG Secretariat concluded that EFRAG TEG should select its recommendation to the Board on the basis of the following candidates:
- (a) *Better information on intangible assets.*
 - (b) *Cryptocurrencies.*
 - (c) *Variable and contingent payments.*
 - (d) *Equity-liability distinction.*
 - (e) *Equity method of accounting.*
 - (f) *Accounting in a circular economic environment.*
- 16 A high-level description of the scope and objective for the first three projects was presented in the consultation. Based on the feedback from respondents, the EFRAG Secretariat thinks that this can be still be used as a basis for discussion. **Paper 04-03** provides the description and analysis for the six topics candidates.

Detailed analysis of responses

A. Question 1 – General questions

Q1.1 Do you have suggestions on how EFRAG could substantiate the influence of its Research activities in general, and individual projects in particular, on the IASB's work?

- 17 The majority of constituents responded to this question and agreed that EFRAG influences the work of the IASB in various ways, such as:
- (a) High quality work and compelling arguments.
 - (b) High quality comment letters and post implementation reviews.
 - (c) Participation in the round tables, outreach and other events.
- 18 Several respondents noted that the fact that topics and issues highlighted by EFRAG are considered and discussed by the IASB provides evidence of the influence of its research activities.

- 19 The majority of respondents mentioned the importance of the close collaboration with the IASB, national standard setters, user groups and academics where possible, to enhance its research objectives more effectively and efficiently and help avoid duplication of work by EFRAG on research performed by others.
- 20 Some respondents suggested that EFRAG aligns its research work to the IASB project pipeline noting that the work carried out by EFRAG tends to be more useful and effective when individual projects are closely linked to the forthcoming or existing IASB research projects. However, others pointed out that the best way would be to address the topics that are not the IASB priority but were of significant practical relevance for preparers and users of financial statements.
- 21 Several respondents suggested that EFRAG promote the research topics relevant to Europe and ensure that the IASB develops its projects considering the preferred or acceptable solutions for European constituents. On the other hand, some respondents suggested that collaboration with non-European standard setters and organisations might also be fruitful.
- 22 Some respondents cited the importance for EFRAG to consider the need for each new project it planned to undertake, including demand from users of financial statements, to ensure that time and resource spent on projects offer meaningful and practical solutions to current problems.
- 23 A number of respondents recommended EFRAG to focus on non-financial information including sustainability and how to integrate financial information and non-financial in a balanced way for benefit of users.

Q1.2 What is your assessment on the use of evidence by EFRAG in its recent Research? Do you have suggestions on how to improve it?

- 24 More than half of constituents responded to this question. Overall respondents agreed with the increasing role of collecting evidence to assess the potential and expected consequences of future IFRS Standards and supported EFRAG's commitment to evidence-based quantitative and qualitative research.
- 25 Several respondents admitted that research activities are not free of challenges, such as isolating the effects of a particular accounting treatment from other contributing factors, gathering the reliable data and analysing large datasets. According to them a rigorous process should be in place to obtain good quality results.
- 26 Some respondents noted that given limited resources, EFRAG should carefully weigh-up its research agenda giving priorities to the most urgent projects for users and preparers.
- 27 Respondents generally encouraged EFRAG to engage with the academic community, which is increasingly using technology to analyse large amounts of data, to leverage their findings and create additional research insights, engaging with users was also essential.
- 28 One respondent specifically said it did not support EFRAG to carry out research work on small and narrow issues only in the interest of a limited group, noting that projects should be appealing to as wide an audience in Europe as possible.

B. Question 2 – List of potential topics

Q2.1 For each of the projects listed above, you are kindly required to provide your recommendation based on the following criteria:

- (a) *Is the project topic an important or urgent matter to European constituents?*
- (b) *Is the project likely to reach a useful conclusion in a reasonable time?*

(c) *How would an EFRAG Research project interact with projects from other organisations, including (but not limited to) the IASB?*

29 The relative rating by respondents of the 5 potential research projects proposed by EFRAG is presented below:

(a) *Better information on intangible assets.* Out of 21 responses received, 13 respondents rated it as a high; 3 – as medium and 4 – as low priority project.

The proponents of this project mentioned that:

- (i) The topic is highly relevant for the European constituents and progress can be made within a reasonable timeframe.
- (ii) Changes in the business landscape resulting from new technologies and digitalisation and software solutions, means that internally generated intangible assets play an increasingly important role for the performance of an entity while not adequately recognised in the financial statements.
- (iii) It would be worthwhile to examine further the conceptual basis for the discrepancies between the accounting treatment for acquired and internally generated intangibles. This is a significant investor concern as it distorts key ratios and can could lead to the misallocation of capital.
- (iv) Information on intangible assets is of significant practical relevance for preparers and users of financial statements and in particular for sectors such as the service sector for which the drivers of value are not presently reflected on the balance sheet.
- (v) The work should only be carried out on improved disclosure because various standard setters have over the years' explored recognition and measurement and have up to now not found an acceptable solution. In line with EFRAG's view in the Consultation document, respondents generally agreed that the objective of this project was not to align the carrying amount of equity to market prices.

The opponents of this project stressed that:

- (vi) This matter is of limited importance to constituents as there are limited possibilities for reaching a useful conclusion that might impact financial reporting, whether recognition, measurement, or disclosure. In their view, this topic would be better dealt with through the other reporting initiatives already in process.
 - (vii) This area has already been subject to considerable research.
- (b) *Cryptocurrencies.* Out of 21 responses received, 10 respondents rated it as high; 6 – as medium and 5 – as low priority project.

The proponents of this project stated that:

- (i) The current IFRS literature does not provide adequate guidance on issues that prevail from the accounting treatment of cryptocurrencies, with some respondents (including one from a European banking federation) citing an increasingly urgent need for accounting guidance on cryptocurrencies.
- (ii) With the rapid rise of cryptocurrencies this issue is urgent and highly relevant from a global point of view with a stronger presence in the economic practice. Addressing this topic together with Initial Coin Offerings (ICO's) will enhance the quality of financial reporting.

- (iii) Research is needed to define what these assets may represent, which wider asset categories they may belong to, and how these assets should be accounted for.
- (iv) Some respondents stated that any research activity on this topic should be coordinated with the IASB to avoid duplication of efforts and suggested that EFRAG interact with the IASB at an early stage.

The opponents of this project stressed that:

- (v) Although this project might be of interest for some European constituents, there seems to be many other organisations taking up the challenge. In addition, this project is likely to require considerable time to be completed.
 - (vi) Cryptocurrencies are only relevant to a small group of constituents in certain industries and EFRAG should not invest its resources in this project.
- (c) *Variable and contingent payments.* Out of 22 responses received, 7 respondents rated it as high; 8 – as medium and 7 – as low priority project.
- (i) The proponents of this project agreed that significant diversity in practice exists making this topic, which covers many IFRS Standards, highly relevant to the majority of EFRAG's constituents.
 - (ii) One respondent said that it would be useful to broaden the scope and also look into the treatment of rights associated with contingent payments covering various types of acquisitions.
 - (iii) Another respondent suggested to wait for the IASB decision on the scope of its own project on this subject.
 - (iv) One respondent proposed to narrow the topic down to defined benefit retirement benefits provided by employers, namely the determining the interest cost component of pension cost.
 - (v) Several constituents found this topic less interesting and more of a secondary importance which should only be considered if resources permit.
- (d) *Transaction-related costs.* Out of 20 responses received, 3 respondents rated it as high; 8 – as medium and 9 – as low priority project.

The proponents of this project said that:

- (i) Acquisition costs are an important issue for most preparers of IFRS financial statements, are highly relevant to the majority of EFRAG's constituents and run through a large part of IFRS Standards and should therefore be pursued.
- (ii) One user organisation (EFFAS) cited the importance of transaction-related costs and the impact on business combinations.
- (iii) It would be beneficial to consider the conceptual basis for historical cost accounting holistically as an initial step, before narrowing the research to focus on specific issues such as transaction-related costs.

The opponents of this project found it too narrow and did not consider it as a priority.

- (e) *Derecognition.* Out of 19 responses received, 2 respondents rated it as high; 5 – as medium and 12 – as low priority project.

- (i) The proponents of this project found it important, particularly provided that recognition criteria are much more thoroughly discussed than derecognition and given many structuring opportunities in practice.
- (ii) However, the majority of respondents considered this project of less importance stating that:
 - Although there are inconsistencies in the accounting requirements, the magnitude of issues arising from such discrepancies is not clear and should therefore be assessed prior to undertaking a project.
 - This issue is mostly relevant in the context of financial instruments and IFRS 9 *Financial Instruments* already contains enough guidance on derecognition criteria.
 - This topic was not timely given that the IASB has just issued a revised *Conceptual Framework for Financial Reporting* and that it might take too long before it could influence IASB.

Q2.2 *Are there other topics that you advice EFRAG to add to its Research agenda? If so, please provide a description of the topic and what the objective of an EFRAG Research project should be.*

- 30 Three-quarters of respondents answered this question proposing various different projects for the attention of EFRAG.
- 31 Several respondents suggested that EFRAG starts its own project on *equity-liability distinction* in parallel with *Financial Instruments with Characteristics of Equity (FICE)* project of the IASB.
- 32 Some respondents suggested that EFRAG address the *equity method* of accounting for associates and joint ventures.
- 33 Other respondents suggested that EFRAG perform work on *Non-financial information (NFI) and sustainability reporting and its integration with financial information (FI)* once EFRAG is able to do so under its mandate. One respondent specifically recommended EFRAG to closely monitor, and engage with, the IASB's project on the *Management Commentary Practice Statement*, as this will be one of the focal points for the global discussion on corporate reporting.
- 34 Several respondents proposed to cover the topic of *discount rates* used by different IFRS Standards. They suggested to look at the differences in discount rates used for example for impairment test, pension plans and other provisions and the effects of those differences.
- 35 Some constituents suggested a topic *Impact of the standard setting on the business model* which would cover the impact of new standards such as IFRS 16, IFRS 15, IFRS 3 *Business Combinations*; and IFRS 9 *Financial Instruments*.

APPENDIX I – List of respondents

<i>Respondent</i>	<i>Country</i>	<i>Type</i>
Ivan Grixti	Malta	Private individual
Bruno Ricci	Italy	Private individual
Simon Gleadhill	UK	Private individual
Srivatsan Lakshminaryan	UK	Private individual
HELP University	Malaysia	Academic
Alf Gohdes	Germany	Private individual
FRC - Financial Reporting Council	UK	National Standard Setter
EFAA - European Federation of Accountants and Auditors for SMEs	International	Auditing
PASC - Polish Accounting Standards Committee	Poland	National Standard Setter
Meletre Oy	Finland	Auditing
AFRAC - Austrian Financial Reporting and Auditing Committee	Austria	Auditing
EFFAS - European Federation of Financial Analysts Societies	International	Professional Organisation of Users
VMEBF - Vereinigung zur Mitwirkung an der Entwicklung des Bilanzrechts für Familiengesellschaften	Germany	Business Association
DASC - Danish Accounting Standards Committee	Denmark	National Standard Setter
Tweeus	Netherlands	Consulting
NASB - Norwegian Accounting Standards	Norway	National Standard Setter
AFME - Association for Financial Markets in Europe	International	Business Association
ICAEW - Institute of Chartered Accountants in England and Wales	UK	Auditing
ANC - Autorité des Normes Comptables	France	National Standard Setter
BusinessEurope	International	Business Association
OIC – Organismo Italiano di Contabilita	Italy	National Standard Setter
Mazars	France	Auditing
Accountancy Europe	International	Business Association
FBF - French Banking Federation	France	Business Association