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Recommendation of new projects for the EFRAG proactive research agenda Issues Paper

Objective

- 1 The purpose of this session is to seek EFRAG FR TEG's recommendations for the choice and scope of the new projects to be added to EFRAG's proactive research agenda and these will be presented to the EFRAG FR Board for approval at its June 2022 meeting.
- 2 The discussion and recommendations by EFRAG FR TEG should be made after considering:
 - (a) Constituents' feedback to the [May 2021 EFRAG Consultation on IASB and EFRAG agenda](#) (herein referred to as EFRAG agenda consultation). The feedback was on both the criteria for inclusion in EFRAG's proactive research agenda and the relative priority of different projects; and
 - (b) EFRAG Secretariat's recommendations of projects to be included in EFRAG's proactive research agenda. These recommendations are made after taking into account both constituents' feedback to the EFRAG agenda consultation and the implications of IASB decisions in April on its active agenda for 2022-2026.
- 3 EFRAG Secretariat considers that three new projects should be added to EFRAG proactive research agenda and that they should start when the current ongoing projects have been completed. As for the current projects, the DP Better Information on Intangibles is currently in the consultation phase and a discussion leading to the feedback statement is planned for September 2022; the DP Variable and Contingent Consideration should be out for consultation before the end of 2022). The proposed selection of three projects takes into account the available resources and capacity of the EFRAG financial reporting pillar and the need to spend no more than a third of the available capacity on EFRAG's proactive research.
- 4 In addition, EFRAG FR TEG's views on other possible short-term projects including follow-ups on completed proactive projects (e.g., where it may be appropriate for EFRAG Secretariat Briefing Bulletins with an educational orientation on matters raised in Discussion Papers).
- 5 The rest of the paper is structured as follows
 - (a) Background
 - (b) Overview of feedback to EFRAG agenda consultation
 - (c) EFRAG Secretariat's recommendations for the EFRAG proactive agenda
EFRAG Secretariat's recommended scope of the proposed three projects.

Background

- 6 As noted in the EFRAG agenda consultation, the four strategic aims of EFRAG's proactive research activities are to:
- Engage with European constituents to ensure we understand their issues and how financial reporting affects them;
 - Influence the development of global financial reporting standards;
 - Provide thought leadership in developing the principles and practices that underpin financial reporting; and
 - Promote solutions that improve the quality of information, are practical, and enhance transparency and accountability.
- 7 The EFRAG agenda consultation sought constituents' views on projects that were identified as potentially suitable for EFRAG proactive agenda and these were identified as follows:
- In Table 1 of the EFRAG agenda consultation, from the 30 topics presented as potential projects in the IASB agenda consultation RFI, six topics were shortlisted as being of highest priority based on European constituents' views and included the three current proactive agenda topics (i.e., *connecting financial and sustainability reporting, cryptocurrencies and related transactions, discontinued operations, intangible assets, statement of cash flows and related matters, and variable consideration*). From these six topics, *connecting financial and sustainability reporting* was identified as suitable for EFRAG's future proactive research agenda.

It was assumed that there was no need for further proactive work on the current proactive agenda topics (intangible assets, crypto-assets (liabilities) and variable consideration) as the completed Discussion Papers can be an input for the IASB if needed.
 - Table 2 of the EFRAG agenda Consultation identified seven other possible projects of high priority. Three of these were in the 30 possible projects in the IASB agenda consultation RFI (*Going concern, operating segments, and other comprehensive income*) and four were not listed in the IASB agenda consultation (*Digital reporting¹, Dynamic risk management other than for interest rate by banks, Hedge accounting for insurers, Supply chain financing-including reverse factoring*). Of the seven, three topics (*digital reporting, operating segments, and supply chain financing-including reverse factoring*) were identified as suitable for EFRAG's proactive research agenda.
 - In sum, the EFRAG agenda consultation identified **four topics** as suitable for EFRAG's proactive agenda (i.e., **connecting financial and sustainability reporting, starting with climate risk and its financial implications; digital reporting; operating segments; and supply chain financing-including reverse factoring**).
- 8 The IASB decision on its agenda is an essential input while deciding on EFRAG's proactive agenda as EFRAG's proactive research work can either complement the IASB work on its chosen projects or address priority topics that the IASB cannot address at this stage. As detailed in agenda paper 11-02, in April 2022, the IASB selected its projects from a shortlist of seven projects considered to be the highest priority by most respondents to the RFI (*climate-related risks, cryptocurrencies and related transactions, going concern disclosures, intangible assets, operating segments, pollutant pricing mechanisms, and statement of cash flows and related*

¹ Included as a cross-cutting theme.

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matters). From these, the IASB decided to add **climate-related risk** to its workplan on maintenance and consistent application, two projects (**intangible assets and statement of cash flows and related matters**) to its research pipeline projects, and two projects (**operating segments and pollutant pricing mechanisms**) to the reserve list of its research pipeline. It did not add cryptocurrencies and related transactions and going concern to its active agenda.

Overview of feedback on EFRAG’s proactive research agenda

Feedback on EFRAG’s proactive research agenda

- 9 The comment letter analysis related to EFRAG’s proactive agenda is included as a background paper (Agenda paper 11-04). The Table below summarises the number of respondents (i.e., during outreach and through surveys and comment letters) that supported adding each of the listed projects to EFRAG’s proactive research agenda. It only includes projects supported by constituents responding to the EFRAG agenda consultation.

Source of feedback	Outreach	Survey	Comment letters	Total
Number of respondents	19	6	10	35
Possible project				
Connecting financial and sustainability reporting, starting from climate-related financial implications.	14	5	7	26
Digital reporting**	10	4	5	19
Statement of cash flows & Supply chain financing*	7	4	3	14
Segment reporting	3	2	4	9
Discontinued operations	1	1		2
Discount rate disclosures	n/a	1		1
Going concern	n/a		2	2
Other comprehensive income	n/a		1	1
Discounting	n/a		2	2
Deferred taxes	n/a		1	1
Special purpose financial statements	n/a		1	1
Employee benefits	n/a		1	1
Intangibles	n/a		1	1
Hedge accounting for insurers**	n/a		1	1

* In the EFRAG agenda consultation, statement of cash flows and supply chain financing were listed as separate projects as the IASB did not include supply chain financing as a separate project in its RFI; ** Not presented as a project in the IASB RFI

- 10 Comments by respondents to the EFRAG consultation (see agenda paper 11-04) mostly supported the four projects identified as suitable for inclusion in EFRAG's proactive research agenda. Furthermore, as can be seen in the Table, the respondents also had a variety of suggestions but no recurrent widespread theme on alternative projects to be added to EFRAG's proactive research agenda.

Feedback on EFRAG's DCL on the IASB third agenda consultation

- 11 When issuing the joint consultation document on EFRAG proactive agenda and the IASB third agenda consultation, by combining the two consultations, EFRAG expected that the priorities identified by European constituents will also inform the selection of EFRAG's own proactive research projects to be undertaken from 2022 onwards; in particular if projects considered to be high priorities are not selected by the IASB for its 2022-2026 work plan. As such, the feedback from constituents on the EFRAG DCL on the IASB third Agenda consultation is also relevant for the assessment of which proactive research project EFRAG should undertake.
- 12 Respondents² considered the following projects to be the highest priority for the IASB (projects in priority order as per the respondents' selection):
- (a) Intangible assets;
 - (b) Climate related risks;
 - (c) Crypto assets/liabilities;
 - (d) Discontinued operations and disposal groups;
 - (e) Variable and contingent consideration; and
 - (f) Statement of cash flows.

EFRAG Secretariat's recommendations for EFRAG's proactive research agenda

- 13 As noted above, the EFRAG agenda consultation identified four projects as suitable for EFRAG's future proactive agenda (i.e., **connecting financial and sustainability reporting, starting with climate risk and its financial implications; digital reporting; operating segments; and supply chain financing-including reverse factoring**). The feedback to the EFRAG agenda consultation confirmed the priority of these four projects. Therefore, the EFRAG Secretariat recommends that the project selection should assess these four topics to determine the proactive agenda of three topics- with supply chain financing broadened to statement of cash flows to align with the IASB decision to add this project to its research pipeline. In addition, seven other topics are assessed while considering the implications of the IASB project choice for its agenda.
- 14 All the 11 projects assessed below were identified as either of highest or high priority for European Stakeholders in the EFRAG agenda consultation. Hence, the overarching consideration in the EFRAG Secretariat recommendations is whether EFRAG can successfully conduct research on the suggested projects in a manner that is impactful/value-adding and timely for future consideration by the IASB. In the

² The feedback can be found here:

<https://efrag.sharepoint.com/Meetings/2107091447314770/Meeting%20Documents/02-02%20-%20Agenda%20Consultation%20-%20Comment%20letter%20analysis%20-%20TEG%2021-09-28.pdf>

recommendations made, the EFRAG Secretariat's assessment of the likelihood of project success has considered

- (a) whether there is a well-defined research problem and a gap being filled;
- (b) the ready availability of empirical data/fact patterns including through IFRS IC and post-implementation review issues that can substantiate the research problem;
- (c) whether research will address issues before the IASB can do so;
- (d) possibility of developing targeted solutions;
- (e) whether the envisioned project completion timeline is aligned with possible IASB project timelines (i.e., the project can be complete by the time starts its work);
- (f) the availability of prior EFRAG research/positions; and
- (g) the capacity to outsource aspects of the research or develop it collaboratively with stakeholders and/or other interested organisations.

Implications of IASB project choice

Projects added to IASB maintenance and consistent application workplan (climate-related risk)

- 15 *Climate-related risk*: The IASB has decided to add climate-related risk to its maintenance and consistent application workplan and in so doing will start addressing a matter that is a priority for European stakeholders as conveyed in the EFRAG agenda consultation and EFRAG comment letter that included 'Connecting financial and sustainability reporting, starting with financial implications of climate risk' as one of the six projects with the highest priority for European stakeholders.
- 16 Respondents to the IASB's RFI affirmed that there are deficiencies in reporting about climate-related risks relating to inconsistent application of the IFRS Standards and insufficient disclosures. However, the IASB is unclear about the underlying causes of these deficiencies and the best way to address them, without further investigation. Therefore, the IASB decided to add a 'maintenance and consistent application' project on climate-related risks that aim to investigate the underlying causes of such deficiencies and consider whether any narrow-scope action might be needed.
- 17 Beyond climate-related risks, the IASB acknowledged that the connectivity between the IASB and the ISSB will be an overarching theme for the IASB in the coming years. The IASB considered that connectivity may affect a) new Accounting Standards and major amendments to Accounting Standards, b) digital financial reporting, c) understandability and accessibility of Accounting Standards and d) stakeholder engagement. Nonetheless, they recognised that capacity implications of connectivity are uncertain and are likely to evolve and some flexibility in terms of resources should be retained.
- 18 The scope of the IASB work on climate-related risk is uncertain. It also remains unknown at what pace the ISSB, which has published Exposure Drafts on General Requirements for Sustainability-related Financial Disclosures and Climate-related risk (IFRS S1 and S2), might address sustainability issues (ESG) more broadly beyond climate risk in a manner that can allow a holistic assessment of connectivity. At the same time, at the EU level, EFRAG has published 13 Exposure drafts that cover a complete set of sustainability topics. This presents an opportunity for EFRAG to take a lead in the research on the connection between financial and sustainability reporting in a manner that includes but is not limited to the financial

implications³ of climate-related risk. This matter is discussed in detail in Session 7 (Agenda paper 07-01) of this meeting. For this reason, EFRAG Secretariat recommends adding 'connection between financial and sustainability reporting' as the first new project of EFRAG's proactive research agenda.

Projects added to IASB research pipeline projects (intangible assets, statement of cash flows and related matters)

- 19 *Intangible assets*: As noted in the EFRAG agenda consultation, the EFRAG Discussion Paper *Better Information for Intangibles* provides sufficient thought leadership for consideration by the IASB and, thus, there is no need for an extended proactive project on intangibles after completion of the consultation and outreach. However, EFRAG could consider the publication of Bulletins or similar documents, to leverage the findings of outreach on the Discussion Paper.
- 20 *Statement of cash flows and related items*: EFRAG Secretariat recommends that the statement of cash flows be added to the EFRAG proactive agenda as the second new project as it can encompass supply financing arrangement which is deemed suitable as a proactive research project. The IASB RFI considered supply chain financing as possibly being addressed within a cash flow statement project indicating that a possible approach was to undertake a targeted project to improve aspects of the statement of cash flows, including information about non-cash movements, such as arising from supply chain financing arrangements. If the statement of cash flows is to be added to EFRAG's proactive agenda, it will be necessary to have a targeted scope that will allow the completion of the project before the IASB commences its research.
- 21 Many respondents to the IASB's RFI considered that it was a high priority to solve existing deficiencies though they had mixed views about the nature and extent of those deficiencies. For instance, some supported a comprehensive review of IAS 7 *Statement of Cash Flows* while other respondents were in favour of a targeted approach on specific issues. Those issues include both presentation issues (such as the classification of cash flows into operating, investing and financing activities) and other issues (such as improved disclosures about non-cash financing). Also, the project could include issues relating to the statement of cash flows that arose in the Primary Financial Statements project but were outside the scope of that project.
- 22 The IASB's staff considered that the scope of such a project should initially include all matters raised by respondents and related to the statement of cash flows. In the research phase of the project, they could consider those issues further, to determine whether all such issues should remain within the project's scope.

Projects on IASB reserve list of research pipeline projects (operating segments, pollutant pricing mechanisms)

- 23 *Operating segments*: The key question is whether EFRAG could do research on either of the two reserve research pipeline projects as preparatory input for consideration should the IASB start these projects at a future date. EFRAG Secretariat recommends that operating segments be added as the third new project

³ In 2020, The IASB published educational material related to effects of climate risk on financial statements. <https://www.ifrs.org/content/dam/ifrs/supporting-implementation/documents/effects-of-climate-related-matters-on-financial-statements.pdf>

Beyond climate risk, in 2021, an educational paper by FASB addressed the intersection of ESG matters and accounting standards

https://www.fasb.org/page/ShowPdf?path=FASB_Staff_ESG_Educational_Paper_FINAL.pdf&title=FASB%20Staff%20Educational%20Paper-Intersection%20of%20Environmental,...

as it was assessed as one of the four topics suited for proactive research. Furthermore, it is a high priority and broad support for users and has a clearly articulated problem statement (i.e., addressing the challenges associated with current criteria for identifying reportable segments as identified in the IFRS PIR on IFRS⁴ 8 and some user surveys⁵), has cross-cutting implications (i.e., can address some issues to the reporting on goodwill and need for cohesiveness with PFS line-item presentation).

- 24 *Pollutant pricing mechanisms:* As noted in the EFRAG agenda consultation, pollutant pricing mechanisms ought to be addressed in considering climate-related risks in the context of a project on the connection between financial and sustainability reporting. Hence, EFRAG Secretariat does not recommend that pollutant pricing mechanisms be added as a separate research project.

IASB shortlisted projects not added to the IASB agenda (cryptocurrencies and related transactions)

- 25 *Cryptocurrencies and related transactions:* EFRAG supported adding cryptocurrencies and related transactions to the IASB active agenda but not to EFRAG's proactive agenda as the 2020 Discussion Paper and the [Recommendations and Feedback Statement](#) published in April 2022 suffices as an input for consideration by the IASB. The IASB did not include cryptocurrencies and related transactions in its agenda, but the IASB discussion and staff analysis signalled that these transactions might be addressed within the comprehensive review of intangible assets or separately in the future if excluded from the scope of IAS 38 and/or if these transactions become significantly more pervasive. Furthermore, EFRAG's Recommendation and Feedback statement suggested a two-step approach by the IASB. Along similar lines, in its meeting in April 2022, a member of the EFRAG FR Board suggested that EFRAG could do further monitoring work that paves the way for possible future standard setting. Hence, the EFRAG Secretariat suggests that, as this was one of the seven highest-priority topics for most respondents to the IASB RFI and EFRAG agenda consultation, subject to resource constraints, there should be a possibility to leverage the EFRAG Discussion paper and develop EFRAG Secretariat Briefing Bulletins (e.g., on determining fair value consistent with one of the recommendations in the EFRAG Recommendations and Feedback Statement). Hence, the question for EFRAG FR TEG is whether they agree with a limited leveraging of the EFRAG Discussion Paper (e.g., via publishing an EFRAG Secretariat Bulletin with educational material on valuation for accounting purposes) that can be useful for either the IASB in the future or other National Standard Setters⁶ that may decide to do a project.
- 26 *Going concern:* EFRAG supported the addition of going concern to the IASB agenda but this was not deemed to be a suitable research topic. Respondents to the IASB's RFI raised a few issues on going concern though the need for improved disclosures about the going concern assumptions was the greatest concern. The IASB's staff considered that such a project could be narrowly scoped to focus on clarifying existing disclosure requirements. More specifically, the project could consider incorporating into IAS 1 *Presentation of Financial Statements* the 2010 and 2014

⁴ <https://www.ifrs.org/content/dam/ifrs/project/pir-ifrs-8/educational-material/pir-ifrs-8-operating-segments-feedback-statement.pdf>

⁵ A [2018 CFA Institute survey](#) based on feedback from global investors showed that the majority of respondents (61.7%) believed a change in the CODM approach was necessary but differed in why or how a change was needed. Substantively, all improvements were related to lowering the level of the decision-making or tying it more directly to compensation.

⁶ In May 2022, FASB voted to add digital assets to its Technical agenda for standard setting after having included it in its research agenda in 2021.

Agenda Decisions of the IFRS Interpretations Committee about going concern disclosures and adding more specificity to the requirement in paragraph 25 of IAS 1⁷.

- 27 The IASB decided at its April 2022 meeting not to add this project to the IASB's workplan due to the capacity constraints as well as the existence of other higher priority projects. However, the IASB noted that other current and potential projects could result in providing users with better information to assess an entity's ability to continue as a going concern, such as projects that are expected to provide better information about the entity's liquidity and solvency (for example, the project on the statement of cash flows and related matters). EFRAG Secretariat does not recommend adding going concern to the EFRAG proactive agenda.- However, the going concern disclosures could be considered in the connection between financial and sustainability reporting. Alternatively, this could be a project undertaken in the future by the European Lab that focuses on identifying good reporting practices.

Other projects on the IASB RFI considered as high-priority by EFRAG but not shortlisted or added to the IASB agenda (discontinued operations and disposal groups, variable consideration)

- 28 *Discontinued operations and disposal groups:* The EFRAG agenda consultation included discontinued operations and disposal groups as one of the highest priority projects for European stakeholders for inclusion in the IASB agenda. The IASB RFI had proposed the following as the possible scope of a project on discontinued operations and disposal groups
- (a) Reconsider the single line-item presentation of discontinued operations and the disclosure requirements (M)
 - (b) Undertake a comprehensive review of the Standard (M)
- 29 However, in the EFRAG agenda consultation, this project was not identified as suitable for proactive research and there was minimal support from respondents for the inclusion of this project on either the IASB agenda or on EFRAG's proactive research agenda. Hence, the EFRAG Secretariat does not recommend the addition of discontinued operations and disposal groups to the EFRAG proactive agenda.

- 30 *Variable consideration:* The project on variable consideration was included as one of the six highest priority topics cited in the EFRAG agenda consultation but it was not considered as one of the highest priority topics by respondents to the IASB RFI and EFRAG agenda consultation. Furthermore, the forthcoming EFRAG Discussion Paper *on variable consideration* provides sufficient thought leadership for consideration by the IASB and, thus, there is no need for an extended proactive project on variable consideration after the consultation and outreach on the Discussion Paper.

Projects suggested by EFRAG that were not on the IASB RFI as separate projects (digital reporting, hedge accounting for insurance liabilities)

Digital reporting

- 31 The EFRAG agenda consultation presented digital reporting as a separate project that is suitable for EFRAG proactive research. The EFRAG agenda noted that in several of its recent comment letters, EFRAG has recommended that the IASB

⁷ IAS 1, 25 When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

better considers the effect on technology in standard setting. A project could focus on assessing how the digitisation of reported information (including the ESMA ESEF and other forms of digital reporting) can be incorporated into the cost-benefit analysis of IFRS requirements.

- 32 On the other hand, the IASB RFI presents digital reporting as a cross-cutting theme rather than as a separate topic and suggests that further to its current efforts (i.e., updating the taxonomy for IFRS Standards, IFRS for SMEs and Management Commentary and publishing related educational material) the IASB could
- (a) explore how advances in technology are changing the way investors consume information and assess the extent to which improvements are needed to the IFRS Taxonomy and the way in which the Board writes the Standards.
 - (b) work more with regulators and other bodies to increase global adoption of the IFRS Taxonomy. This work would support the transparency, accountability and efficiency of financial markets given the trend towards digital financial reporting.
 - (c) work more with companies, regulators, auditors, investors, data aggregators and others to improve the quality of electronic data and consistency in application of the IFRS Taxonomy.
 - (d) provide more educational materials and programmes to support the understanding and use of the IFRS Taxonomy.
- 33 Based on the feedback to the RFI, the IASB staff suggested that the IASB could undertake
- (a) Accounting Standards—for example, considering whether increased digital consumption of financial information should drive changes in financial reporting requirements which have historically been based on how much information can be presented and disclosed in a paper-based format.
 - (b) the IFRS Accounting Taxonomy—for example, identify and address causes of errors and unnecessary extension
 - (c) digital ecosystem—for example, engage with and support stakeholders to facilitate digital consumption of financial reports. This could include working with regulators to support adoption of the IFRS Accounting Taxonomy and preparers to support quality outcomes in applying the IFRS Accounting Taxonomy. We acknowledge that the actions of these stakeholders are outside the IASB's control. However, we think that the lack of coordinated action in digital reporting carries risks for capital markets. In addition, recent trends have shown increased engagement by stakeholders on digital reporting. We think that in the short term (for example, the next two years) the IASB could leverage this engagement to improve the state of digital reporting globally.
- 34 EFRAG Secretariat notes that the IASB has been active in digital reporting and in February 2022, the IASB decided to slightly increase its efforts on digital reporting. Furthermore, digitisation will be an integral part of the reporting of sustainability information (i.e., for both ISSB and ESRS standards) and there are several publications addressing matters associated with the production and consumption of digital reporting information. This raises the question of what scope of EFRAG research would be incremental to the variety of existing initiatives.
- 35 The proposed aspect in the EFRAG agenda consultation of how the digitisation of reported information (including the ESMA ESEF and other forms of digital reporting) can be incorporated into the cost-benefit analysis of IFRS requirements does not seem to fit into the traditional research topic. Instead, it could be addressed by

incorporating a review of how digitisation can be incorporated into the endorsement criteria. For these reasons, EFRAG Secretariat does not recommend the inclusion of digital reporting as a proactive research project. However, this should not preclude EFRAG from engaging in ongoing monitoring and capacity building on digital reporting including through the publication of EFRAG Secretariat Bulletins related to specific aspects of digitisation in corporate reporting. For example, EFRAG will publish a Report from the May 2021 European Accounting Association symposium on Digitisation.

Hedge accounting for insurers

- 36 The EFRAG agenda consultation proposed hedge accounting for insurers as a possible topic for the IASB agenda, but it was not assessed as one of the suitable ones for the EFRAG proactive research agenda. The following justification was provided for this potential project.
- (a) In its endorsement advice on IFRS 17 Insurance Contracts, EFRAG identified and assessed several challenges with the application of the requirements in IFRS 9 to insurance contracts.
 - (b) The suggested project would aim at providing more guidance on how to reflect the dynamic nature of the risk management activities of insurers in dealing with financial and insurance-related risks inherent to insurance liabilities.
- 37 There was minimal support from respondents for the inclusion of this project on either the IASB agenda or on EFRAG's proactive research agenda. In addition, as part of the preparation to the endorsement advice of IFRS 17, EFRAG has already conducted outreach and technical discussions with insurance and hedge accounting experts to explore the opportunities for hedge accounting offered by IFRS 9 and IAS 39 (including the carve-out). Hence, the EFRAG Secretariat does not recommend the addition of hedge accounting for insurers to the EFRAG proactive agenda. However, this should not preclude, subject to capacity considerations, outreach to insurers on the practical approaches to risk management and applicability of hedge accounting, similar to what EFRAG did in 2016 for the assessment of Dynamic Risk Management by European Banks.

38 The Table below summarises the assessment of 11 projects deemed to be high priority and recommendations made thereafter

Project	Recommend to add to or extend as a proactive project	Possible alternative non-proactive research outputs
Connection between financial and sustainability reporting, starting with financial implications of climate risk	Yes	
Intangibles	No extension after the outreach and consultation period	Possible Briefing bulletins based on feedback during outreach on EFRAG DP
Cash flow statement and related items	Yes	
Operating segments	Yes	
Pollutant pricing mechanisms	No	Considered in connectivity project
Cryptocurrencies and related transactions	No extension	Only a Briefing bulletin on valuation that is consistent with the suggestion for educational material made in EFRAG Recommendation and Feedback Statement. To limit the use of EFRAG resources, this can be done in partnership with expert organisations
Going concern	No	Consider in connectivity project Could be a European Lab project
Discontinued operations and group disposals	No	
Variable consideration	No extension after the outreach and consultation period	
Digital reporting	No	Briefing bulletin on EAA, ongoing monitoring
Hedge accounting for insurers	No	Outreach survey to insurance entities

EFRAG Secretariat's recommendations for the possible scope of three recommended projects

- 39 The above analysis has resulted in recommendations for the following three projects
- (a) Connection between financial and sustainability reporting, starting with the financial implications of climate risk;
 - (b) Statement of cash flows and related items;
 - (c) Operating segments.
- 40 Below is an analysis of the possible scope of these three recommended projects for EFRAG's proactive agenda.

Recommended Project 1: Connecting financial and sustainability reporting

- 41 Session 7 (and agenda paper 07.01) of this meeting addresses this topic in detail.

Possible project scope suggested in EFRAG agenda consultation and IASB RFI and subsequent analysis

EFRAG comments in its agenda consultation

- 42 Climate-related financial implications are to be considered as a starting point. However, the aim should be to address environmental, social, and governance (ESG) matters comprehensively.
- 43 The following in relation to a project on climate risk could be considered:
- (a) Disclosure on the alignment of the assumptions used for impairment and amortisation of fixed assets with the implications of the Paris Agreement.
 - (b) Disclosures about how companies factor climate-related risks into the best estimate of provisioning amounts.
 - (c) Assessment of IFRS Standards on provisioning for future risks, considering
 - (i) the broader implications of climate transition risk,
 - (ii) insignificant climate-related contingent liabilities, and
 - (iii) the impact of biodiversity.
- 44 The project could investigate the reasons for the observable evidence (e.g., 2021 Carbon Tracker report) that company accounts are leaving out material impacts linked to climate change transition risk (e.g., regulatory responses) and physical risk and determine whether further standard setting is required to address this situation.
- 45 The project could also address the IASB's envisaged project on Pollutant Pricing Mechanisms.

IASB RFI description and subsequent analysis on the scope of a possible project on climate-related risk

- 46 The IASB RFI proposed the follow possible scope:
- (a) Lower the threshold for disclosure of information about sources of estimation uncertainty, including the effect that climate-related risks have on that uncertainty (M)
 - (b) Broaden the requirements in the Standard on impairment for cash flow projections to be used in measuring value in use when testing assets for impairment (S)

- (c) Develop accounting requirements for pollutant pricing mechanisms (L).

Initial considerations for the definition of a scope of this project

- 47 Outreach to users of financial statements to identify what information they need in financial statements about climate and other environmental, social and governance matters.
- 48 Identify anchor points related to the PTF-RNFRS notions of direct and indirect connectivity (where financial statements stop and sustainability statements start and how to operationalise the links between the two).
- 49 Involvement of the EFRAG SR TEG and EFRAG SR Board in the project should also be considered, in order to effectively serve connectivity from both the financial reporting and sustainability reporting perspective, while recognising that the EFRAG sustainability reporting bodies will focus on the finalization of the complete set of ESRS also in 2023.
- 50 Next to this research project, EFRAG could consider launching a European Lab FR/SR project to identify reporting practices that exemplify connectivity between financial and sustainability information (i.e. climate-related reporting).

Recommended Project 2: Statement of cash flows and related items

Possible scope suggested in EFRAG agenda consultation and IASB RFI proposals and subsequent analysis

EFRAG recent positions

- 51 The 2020 EFRAG comment letter response to the IASB's exposure draft ED/2019/7 General Presentation and Disclosures called for a separate project on IAS 7 with the objective of having a comprehensive review of the challenges that arise in practice (e.g., financial institutions) and improve consistency with the new content and structure of the statement of profit or loss:
- 52 *EFRAG welcomes the IASB's efforts to make targeted improvements to IAS 7, however we consider that there is a need for a separate project on IAS 7 with the objective of having a comprehensive review of the challenges that arise in practice, particularly in regard to some financial institutions (e.g. banks and life insurers) where the statement of cash flows is not considered useful. Therefore, EFRAG suggests that the IASB:*
- (a) *makes further research work on having a statement of cash flows that is structured differently for financial institutions to ensure that it provides relevant information to users and mentioned in EFRAG's Discussion Paper The Statement of Cash Flows: issues for Financial Institutions issued in 2015;*
 - (b) *considers the issues raised in the UK FRC discussion paper Improving the Statement of Cash Flows; and*
 - (c) *improves consistency and eliminate current presentation inconsistencies between the statement of financial performance and the statement of cash flows in this separate project on IAS 7 (e.g. interest revenue from cash and cash equivalents is classified in the financing category in the statement of profit or loss, whereas all interest received is classified as cash flows from investing activities in the statement of cash flows as explained in paragraph BC197 of the Basis for Conclusions).*
- 53 In its comment letter to the Exposure Draft ED/2021/10 Supplier Finance Arrangements, EFRAG included in *Appendix 2 – Further recommendations on arrangements related to working capital and liquidity management* a number of issues to be addressed (provided here in appendix).

IASB RFI description and subsequent analysis on the scope of a possible project on the statement of cash flows and related items

- 54 The IASB RFI proposed the following possible
- (a) Develop more effective disclosures about ongoing maintenance expenses and growth expenditure (S)
 - (b) Consider whether to remove the requirement for financial institutions to produce a statement of cash flows (S)
 - (c) Undertake a targeted project to improve aspects of the statement of cash flows, including information about non-cash movements, such as arising from supply chain financing arrangements (M)
 - (d) Seek to develop a statement of cash flows for financial institutions (M)
- 55 Feedback to the RFI showed that some other respondents were in favour of a targeted approach on specific issues. Those issues include both presentation issues (such as the classification of cash flows into operating, investing and financing activities) and other issues (such as improved disclosures about non-cash financing). Also, the project could include some issues relating to the statement of cash flows that arose in the Primary Financial Statements project but were outside the scope of that project.
- 56 The IASB's staff considered that the scope of such a project should initially include all matters raised by respondents and related to the statement of cash flows. In the research phase of the project, they could consider those issues further, to determine whether all such issues should remain within the project's scope.

Recommended Project 3: Operating segments

Possible scope suggested in EFRAG agenda consultation and IASB RFI and subsequent analysis

EFRAG comments in its agenda consultation

- 57 Monitor developments in the PFS project and consider cohesiveness with operating segments (Medium project)

IASB RFI description and subsequent analysis on the scope of a possible project on operating segments

- 58 The IASB RFI noted that investors with concerns had proposed
- (a) a potential project should consider improvements to the criteria for aggregating operating segments into reportable segments. The investors suggested that the reliance on management judgement results in insufficient disaggregation;
 - (b) repeated changes to the composition of reportable segments affect comparability between periods for a reporting company;
 - (c) the Board should require disclosure of additional line items by segment. These lines could include revenue, assets, equity, capital expenditures, business combinations, non-current assets held for sale and discontinued operations. These additional disclosures should be required regardless of whether the information is regularly provided to the chief operating decision maker;
 - (d) the Board should develop requirements for disclosure of a minimum set of key performance indicators by segment to allow basic analysis— for example, margins, turnovers and returns.

- 59 The April 2022 IASB indicates that a project on operating segments should conduct research into:
- (a) The underlying causes of users' concerns about the granularity of segment information that entities provide. In this regard, there is likely to be a need to also do some research on how operating segments are identified because, in practice, the aggregation question is tightly tied in to the identification of operating segments question; and
 - (b) The feasibility (including costs to preparers) of potential solutions that could be implemented without reconsidering the use of the management approach to determine an entity's operating segments.

Questions for EFRAG FR TEG

- 60 Does EFRAG FR TEG agree with the criteria for the selection of projects described in paragraph 14 above?
- 61 Does EFRAG FR TEG agree with the three recommended projects for EFRAG's proactive agenda? If not, what other project/s does EFRAG FR TEG recommend and what is the proposed scope of these alternative project/s?
- 62 For *connecting financial and sustainability reporting, starting from climate-related financial implications*, EFRAG will be following as part of its reactive work the activities of the IASB future project on climate risk. The IASB will run a maintenance and consistent application project on climate-related risks that aims to investigate the underlying causes of the deficiencies in reporting on climate related financial implications in current financial statements and consider whether any narrow-scope action might be needed. EFRAG project could have different size and ambitions, such as to cover the areas described in paragraphs 42 to 45 above (all or part of them) or to address connectivity more broadly, i.e. not only from a climate perspective but across topics. Do EFRAG FR TEG members consider that the EFRAG project should cover the areas described in paragraphs 42 to 45 above? Or only part of them (please specify)? Or should it address connectivity more broadly?
- 63 For statements of cash flows, should EFRAG project aim at covering the areas described in paragraphs 51 to 53 above? Or should it cover the issues described in the Appendix?
- 64 For segment reporting, do EFRAG TEG members agree to focus on paragraphs 59 above?
- 65 Do EFRAG FR members have other suggestions or recommendations or comments on alternative non-proactive research outputs as summarised in the Table below paragraph 38?

Appendix - Further recommendations on arrangements related to working capital and liquidity management- Excerpts from EFRAG Comment Letter

- 66 EFRAG considers that the project relates to the wider issue of presentation and classification in the statement of financial position, liquidity risk disclosures and relevance of the statement of cash flows in general. At a later stage, EFRAG anticipates that further efforts are needed in terms of reporting of such arrangements and the IASB should take the opportunity to:
- (a) consider whether further clarifications or improvements could be done within a comprehensive project on SFA . In particular, a project that would consider improvements that could help users easily assess the true level of borrowing from financial creditors (including net debt) and consider other similar arrangements related to working capital and liquidity risk management for which there is a lack of disclosures (e.g., supplier inventory financing, receivables financing) as such arrangements are increasingly used in practice;
 - (b) provide further application guidance, illustrative examples or implementation guidance on the requirements of IFRS 9 *Financial Instruments* for supplier finance arrangements in the principle-agent area and derecognition requirements for liabilities that become part of such arrangements;
 - (c) consider the need for a holistic review of how current disclosure requirements address the increased interest in liquidity risk and how entities leverage their working capital effectively when financing their activities;
 - (d) perform outreach on whether the proposed amendments to IFRS 7 satisfy users' information needs on liquidity risk; and
 - (e) consider a research project on IAS 7 to address the relevance of the statement of cash flows when reporting for SFA (e.g. improving disclosures on non-cash transactions and providing guidance on determining whether a cash flow existed, specifically, whether and when a finance provider could be considered as a paying agent of the entity).
- 67 EFRAG recommends that the IASB further consider the consistency of reporting for supplier finance arrangements across different primary financial statements (statement of financial position, statement of financial performance and statement of cash flows). More details about further improvements related to reporting of supplier finance arrangements are included in the sections below.
- 68 Finally, EFRAG observes that the ED's proposed disclosure requirements rather provide application guidance on how to apply requirements of existing IFRS Standards (i.e., IAS 1, IAS 7, IFRS 7, IFRS 9) to supplier finance arrangements. EFRAG notes that the IASB's narrow-scope project might confuse preparers that such disclosures are not required for other types of financing arrangements related to managing of an entity's working capital.

Statement of financial position

- 69 EFRAG is of the view that there is still a need for standard-setting activity in the area of classification and presentation of supplier finance arrangements to better address the specificities of such arrangements. This could be addressed in separate related projects.
- 70 In the agenda decision issued by the IFRS IC, it is clarified when an entity should present liabilities that are part of a reverse factoring arrangement as part of trade payables and when it should be presented separately. EFRAG observes that having a clear dividing line between trade payables and financial debt would be useful, however, it would be highly judgemental and difficult to achieve. Therefore, EFRAG

suggests providing some indicators that would help entities determine the classification and presentation of liabilities in the statement of financial position under such arrangements. Possible indications that could be considered are: which entity initiates the agreement, which entity bears the interest expense for the bank's intermediation in the arrangement, what is the usual maturity of liabilities under supplier finance arrangements etc.

- 71 On presentation, EFRAG also considers that more guidance is needed to help management assess the presentation for liabilities when becoming part of supplier finance arrangements. For example, it may be useful to develop indicators of when a liability represents borrowings of the entity, and consequently can no longer be classified as trade payables (e.g., an entity obtains extended credit from the finance provider, the financial institution legally novates the payable, the financial institution is not simply a paying agent, etc).
- 72 It is important to provide guidance not only on separate presentation but also proper labelling on the face of the financial statements (e.g., use of 'trade payables', 'other creditors', 'borrowings', 'short-term debt' or 'financial debt'). It is helpful for users that entities are required to provide better information on what trade payables will be paid under these arrangements and when (i.e., provide information similar to the maturity analysis disclosures for financial debt).
- 73 EFRAG recalls that a UK construction business in 2018 that received a lot of attention in the UK presented these liabilities separately as 'other creditors' (i.e., separately from trade payables), which was much criticised as it was not presented as part of financial debt, and consequently not reflecting such amounts in debt to earnings ratio, covenants and cash conversion ratios. This seems to be recognised by the IFRS IC when discussing the statement of cash flows, which refers to 'borrowings of the entity', but not when discussing the statement of financial position.
- 74 Users have also raised the issue of splitting the amount because classifying the entire payable as a loan payable would overstate the entity's borrowings.
- 75 EFRAG also observes that the diversity in presentation of liabilities under supplier finance arrangements as trade payables or as financial debt is also a result of different legal frameworks that exist in various jurisdictions. For example, some jurisdictions do not allow the reclassification from operating to financing category.
- 76 EFRAG suggests that the IASB consider the possibility of presenting separately liabilities that arise from supplier finance arrangements. For example, a separate line item could appear when there is a change to the usual characteristics of a 'trade payable' but this change is not sufficient to justify reclassification to financial liability.

Statement of cash flows

- 77 EFRAG considers that the linkage between the statement of financial position and the statement of cash flows is important and should be preserved. Therefore, a gross presentation of cash inflows and outflows under supplier finance arrangements in the statement of cash flows could be useful when there is a principle-agent case.
- 78 Additionally, EFRAG recommends that the IASB clarify how cash flows under supplier finance arrangements should be presented in the statement of cash flows, in particular, under paragraph BC8(a) and (b) of the ED and in light of the EFRAG's suggestion made in paragraph **Error! Reference source not found.** of the EFRAG D CL.
- 79 Finally, EFRAG suggests that the IASB consider a research project on IAS 7 to address the relevance of the statement of cash flows when reporting for SFA. For example, that the IASB considers improving disclosures on non-cash transactions and providing guidance on determining whether a cash flow existed, specifically,

whether and when a finance provider could be considered as a paying agent of the entity.