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## Third IASB Agenda Consultation and EFRAG Proactive Research Agenda

### Analysis of the comment letters received

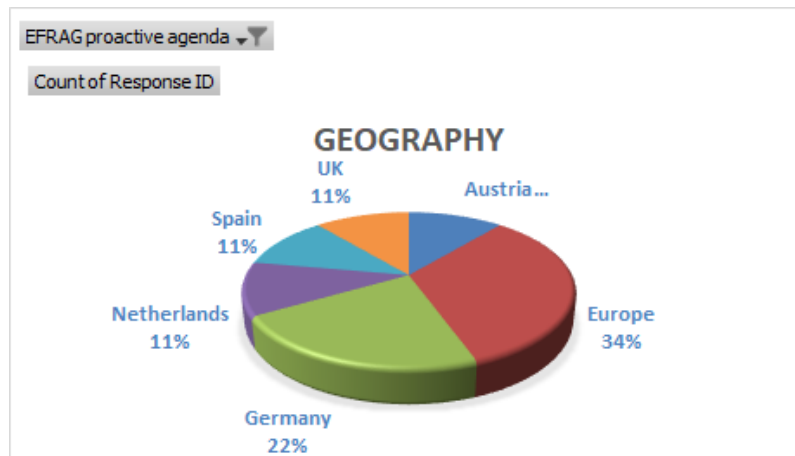
- 1 This document includes the comments received by respondents to the EFRAG joint consultation related to the EFRAG’s proactive agenda. It is an extract from the Agenda Paper *02-04 – Agenda Consultation – Comment Letter Analysis* presented to the EFRAG Board at its 8 October 2021 meeting.

#### Summary of respondents’ views (comment letters and survey)

##### *EFRAG’s proactive agenda*

- 1 Of the 16 comment letters received, nine included comments on EFRAG’s proactive agenda consultation. The professional background and geography of these comment letters is as follows:





- 2 A majority of respondents agreed with the process suggested by EFRAG to select the most important projects for which EFRAG should perform proactive activities.
- 3 One respondent encouraged EFRAG to learn about the impact of its research projects on various matters such as the IASB agenda, developments or publications. The aim would be to identify factors for successful proactive research.
- 4 According to the table included in paragraph 17 below respondents considered the following projects to be the highest priority for EFRAG's proactive agenda (projects in priority order as per the respondents' selection):
  - (a) Connecting financial and sustainability reporting;
  - (b) Digital reporting;
  - (c) Operating segments (IFRS 8); and
  - (d) Supply chain financing.
- 5 A majority of respondents considered the 1/3 of EFRAG's technical resources on proactive research projects to be appropriate.

*Online Outreach event 9 September*

- 6 On EFRAG's proactive agenda discussion, a polling question was launched and answered by 19 respondents. In this regard, audience considered 'Connecting financial and sustainability reporting, starting from climate-related financial implications' (33%) and 'Digital reporting' (23%) to be projects that should be selected by EFRAG as part of its proactive work plan. In addition, 14 % of the answers indicated that EFRAG should select any project rated in EFRAG's comment letter as highest priority and not selected by the IASB. Financial reporting issues suggested by panellists were in line with those selected by the audience, though one panellist suggested EFRAG to undertake a project on going concern if not selected by the IASB.

Question 6 – EFRAG Question to respondents

Do you agree that the most important projects for which EFRAG should perform proactive activities, would be those:

- (i) European respondents consider most important to address in relation to the IASB's agenda consultation (that is the projects listed in Attachment A (on page 18 above) and in Attachment B (on page 21 above); and/or
- (ii) Those projects that are considered important by European respondents and for which European input is particularly important.

If you do not agree, how should EFRAG select the projects for its proactive agenda?

Do you agree with the list of projects in paragraph 4(b) above that are particularly important to provide European input on? Do you agree with the list of projects in paragraph 4(b) above that are particularly important to provide European input on? If not, what four projects would you include on the list?

Do you agree that EFRAG should follow the procedure described in paragraphs 4–7 when selecting projects to be included on its proactive agenda? If not, why?

On average, what do you think the ratio between resources EFRAG spend on proactive work and reactive work should be?

*Proposals in the ED*

7 *EFRAG initially considers that its decision on which proactive projects to initiate, should be based mainly on:*

- (a) *European respondents' views on the importance of the various projects considered for the IASB's agenda consultation accompanying EFRAG's draft comment letter to the RFI and any additional projects suggested by respondents).*
- (b) *A short list of four projects which are considered important by European respondents and particularly suitable for an EFRAG proactive research project. These projects are:*
  - (i) *Connecting financial and sustainability reporting;*
  - (ii) *Digital reporting;*
  - (iii) *Segment reporting; and*
  - (iv) *Supply chain financing.*

8 *In its consultation document, EFRAG suggested spending around 1/3 of its technical resources on proactive research projects.*

*Summary of respondents' comments*

9 Of the 16 comment letters received in time for inclusion in this comment letter analysis, nine included comments on EFRAG's proactive agenda consultation. In addition, one national standard setter has by email expressed preliminary support for the approach for proactive research activities included in EFRAG's consultation document.

*Process for selecting projects for EFRAG's proactive research agenda*

10 Six respondents agreed with the process suggested by EFRAG to select the most important projects for which EFRAG should perform proactive activities. As noted above, in addition one standard setter expressed preliminary support for the approach for proactive research included in EFRAG's consultation document.

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- 11 One national standard setter encouraged EFRAG to learn about the impact of its research projects on various matters such as the IASB agenda, developments or publications. The aim would be to identify factors for successful proactive research.
- 12 One association of accountants also encouraged EFRAG to be cognisant of the trickle-down effect whereby national standard setters ‘borrow’ accounting treatment from full IFRS for use in national standards that are primary directed at non-public accountable entities or SMEs. The respondent considered that the risk of trickle down might be added as an additional consideration when selecting projects.
- 13 One association of preparers explicitly supported EFRAG’s intention to finalise the current research projects in the first instance, before starting the new proactive research activities.
- 14 One national standard setter noted that EFRAG should not necessarily consider the most important projects for the IASB’s agenda as these could include quick solutions and EFRAG should consider more fundamental research-based projects that look into the future. Similarly, an association of accountants supported EFRAG to work on projects which the IASB is not itself actively engaged on. The respondent therefore considered that EFRAG should wait until the IASB has decided on its workplan before setting its own proactive agenda.
- 15 On the other hand, another national standard setter thought that if an issue would not be sufficiently important or urgent to be included on the IASB’s workplan, this assessment would generally also apply for an EFRAG proactive research project (there should be a high hurdle for EFRAG to start its own project on such issues). The national standard setter also thought that while EFRAG could assist the IASB in collecting input from European constituents on projects that would be selected by the IASB, it should not initiate a concurrent proactive research project.
- 16 At the 9 September 2021 webinar, a panellist noted that which projects that could be chosen for EFRAG proactive research activities would not only depend on which projects, the IASB would include on its agenda, but also when the IASB would start working on a project included on its agenda. EFRAG would thus have sufficient time to prepare proactive research work for a project the IASB would not start considering immediately in 2022, but later in the 2022-2026 period.

*Projects particularly useful for an EFRAG proactive research project*

- 17 The number of respondents supporting a particular proactive research projects can be summarised as below (based on how many respondents supported the project):

	Outreach	Survey	Comment letters	Total
Number of respondents	19	6	10	35
Connecting financial and sustainability reporting	14	5	7	26
Digital reporting	10	4	5	19
Supply chain financing	5	3	3	11
Segment reporting	3	2	4	9
Statement of cash flows	2	1		3
Discontinued operations	1	1		2
Discount rate disclosures	n/a	1		1
Going concern	n/a		2	2

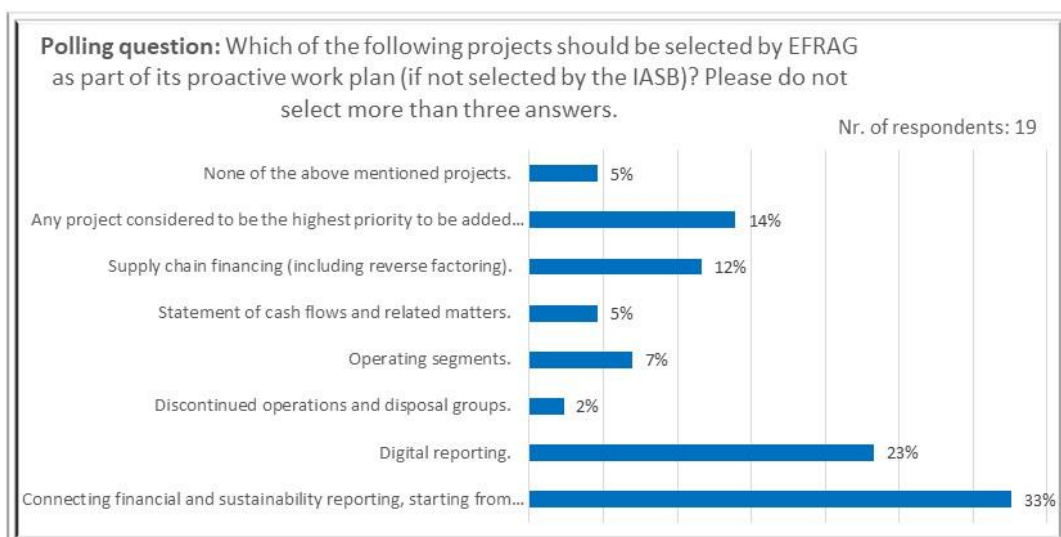
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Other comprehensive income	n/a	1	1
Discounting	n/a	2	2
Deferred taxes	n/a	1	1
Special purpose financial statements	n/a	1	1
Employee benefits	n/a	1	1
Intangibles	n/a	1	1
Hedge accounting for insures	n/a	1	1

18 The input received from the various sources is explained further below.

Polling question at outreach event

19 At EFRAG's outreach event on 9 September 2021, respondents provided the following views to a polling question on which proactive research projects EFRAG should include on its agenda.



20 The results from this polling question seems to be relatively well aligned with the projects for EFRAG to consider mentioned by respondents through the online survey and through comment letters.

Results of online survey

21 Respondents to the survey selected whether they agreed with including the project on EFRAG's priority lists or whether they disagreed either with the inclusion of the project or with the scope. Summary of respondents selection is included in paragraph 17 above.

22 Five of the online survey respondents replying to the question in the online survey all supported a project on connecting financial and sustainability reporting.

23 Four of the online survey respondents agreed with including the project on digital reporting while one respondent, an association of users, thought it should be replaced with disclosures on discount rates or with cash flow statements.

24 Three of the online survey respondents supported a project on supply chain financing.

- 25 Two respondents agreed with considering a project on operating segments while one, a national standard setter, thought that this project should be replaced by a project on discontinued operations.  
Summary of comments in comment letters
- 26 The project on connecting financial and sustainability reporting was also the project that received most support by respondents submitting a comment letter.
- 27 Three respondents supported the list of four projects that were considered in the EFRAG consultation document as particularly important to provide European input on. However one of these respondents, an association of accountants assigned special importance to the projects on 'Connecting financial and sustainability reporting, starting from climate-related financial implications' and 'Supply chain financing (including reverse factoring)'.
- 28 Another respondent, an association of preparers supported only the projects on 'Connecting financial and sustainability reporting, starting from climate-related financial implications' and 'Digital reporting'. In relation to the project on 'Digital reporting' the respondent noted that digitalisation should be considered along the standard-setting process but should not lead to technology driven content.
- 29 One respondent suggested that both EFRAG and the IASB should develop a project on 'Connecting financial and non-financial reporting in an aligned way. It further noticed that EFRAG should undertake the following projects:
- (a) Discount rates: EFRAG could use previous research work on this topic to eliminate inconsistencies across IFRS Standards.
  - (b) Employee benefits:
- 30 An association of users particularly supported the projects on connecting financial and sustainability reporting, segment reporting and intangibles.
- 31 Although most respondents supported a project on connecting financial and sustainability reporting, two respondents noted that they did not support such projects. One of these was a national standard setter that considered that it would be too late to start such a project mid-2022 to be in line with the timetable of developing ESRS. The respondent instead suggested that EFRAG's proactive work should be on digital reporting and other comprehensive income, and if EFRAG would have additional resources: discounting in financial reporting; deferred taxes; and special purpose financial statements. The other respondent was an association of accountants that considered the projects on sustainability and on supply chain finance to be less important as the IASB will likely take these up.
- 32 Two respondents suggested EFRAG to include a project on going concern either as part of its (reactive or) proactive agenda. One of these, an association of accountants suggested this project in addition to the four projects suggested in the consultation document while the other, a national standard setter only suggested that EFRAG should also work on connecting financial and sustainability reporting.
- 33 An association of preparers in the financial industry agreed that EFRAG should address the connectivity between financial and non-financial reporting. On the other hand, operating segments should be analysed together with the new standard on primary financial statements to achieve consistency. The respondent also noted that if the IASB would not include a project on hedge accounting for insurers, this should be addressed by EFRAG. Finally, the respondent suggested that EFRAG could tackle the following projects using information previously collected:
- (a) A project on discount rates in which EFRAG could use previous research work to eliminate variations in present value measurement techniques.

- (b) A comprehensive review of IAS 19 *Employee benefits* that would effectively address the variety of plans that currently exist, and problems related to discounting.

*Resources to be spent on EFRAG proactive research projects*

- 34 All of the five respondents replying to EFRAG's consultation survey and two of the comment letters received thought that spending 1/3 of EFRAG's technical resources on proactive research projects seemed appropriate.
- 35 One respondent, an association of accountants considered that EFRAG's resources need to be increasingly directed towards proactive work in order to influence the IASB's agenda. On the other hand, two other respondents thought the 'one third' target resource allocation was ambitious. One of these, an association of accountants thought it might be too ambitious and suggested to cut it to one quarter. In addition, the respondent noted that the chairs and vice-chairs of the two (financial and sustainability) boards and of the two technical expert groups were expected to sit in one-another's meeting in order to ensure connectivity between financial and sustainability reporting. Therefore, EFRAG should also consider the resource needs to address connectivity as well before establishing the share of its resources for its proactive work. The other respondent, a national standard setter considering the 'one third' target to be ambitious thought that whether this could be achieved would depend on international developments including publications of the IASB.
- 36 One association of preparers recommended not to think in terms of a fix ratio when determining work plan priorities. Instead, the respondent asked for a permanent careful cost-benefit consideration from the perspective of the reporting entities. This should mean that standard-setting activities by the IASB via research activities by EFRAG should take into consideration the strategic idea of providing a stable platform for preparers.
- 37 An association of users supported EFRAG's initiative to develop proactive research and thought that given the need for a proper allocation of resources EFRAG should be focused on a maximum of three to four projects.

*EFRAG Secretariat's preliminary observation to EFRAG TEG on EFRAG's proposed final position*

*Projects particularly useful for an EFRAG proactive research project*

- 38 The EFRAG Secretariat notes that its consultations are not popularity polls. However, for EFRAG's proactive research agenda consultation, the number of respondents considering a given topic to be relevant should be taken into account. As each response cannot be given equal weight as they can represent the view of a jurisdiction or an individual, it is difficult to 'count the votes'. However, the EFRAG Secretariat notes that a relative clear picture emerges from the various types of sources from which EFRAG has received input. That picture suggests that the topics initially included in EFRAG's consultation document are also the topics constituents consider most relevant for an EFRAG research project.
- 39 The EFRAG Secretariat accordingly suggest leaving this list unchanged.
- 40 On the comments in relation to connecting financial and sustainability reporting and supply chain financing that the IASB will consider these projects, the EFRAG Secretariat notes that whether, and if so when, the IASB would consider a project would be a factor that EFRAG will consider when deciding on which projects to include on its proactive research agenda. On the comment in relation to supply chain financing, the EFRAG Secretariat notes that the scope of project, the IASB has initiated is different from the project EFRAG would undertake on this issue.

*Resources to be spent on EFRAG proactive research projects*

- 41 While some respondents consider EFRAG should spend more resources on proactive research activities and other think less resources should be spent, most respondents seem to support the view that EFRAG should spend around 1/3 of its financial reporting technical resources on proactive research activities. The EFRAG Secretariat notes that the resources allocated to proactive research activities will always depend on the resources needed on other projects.