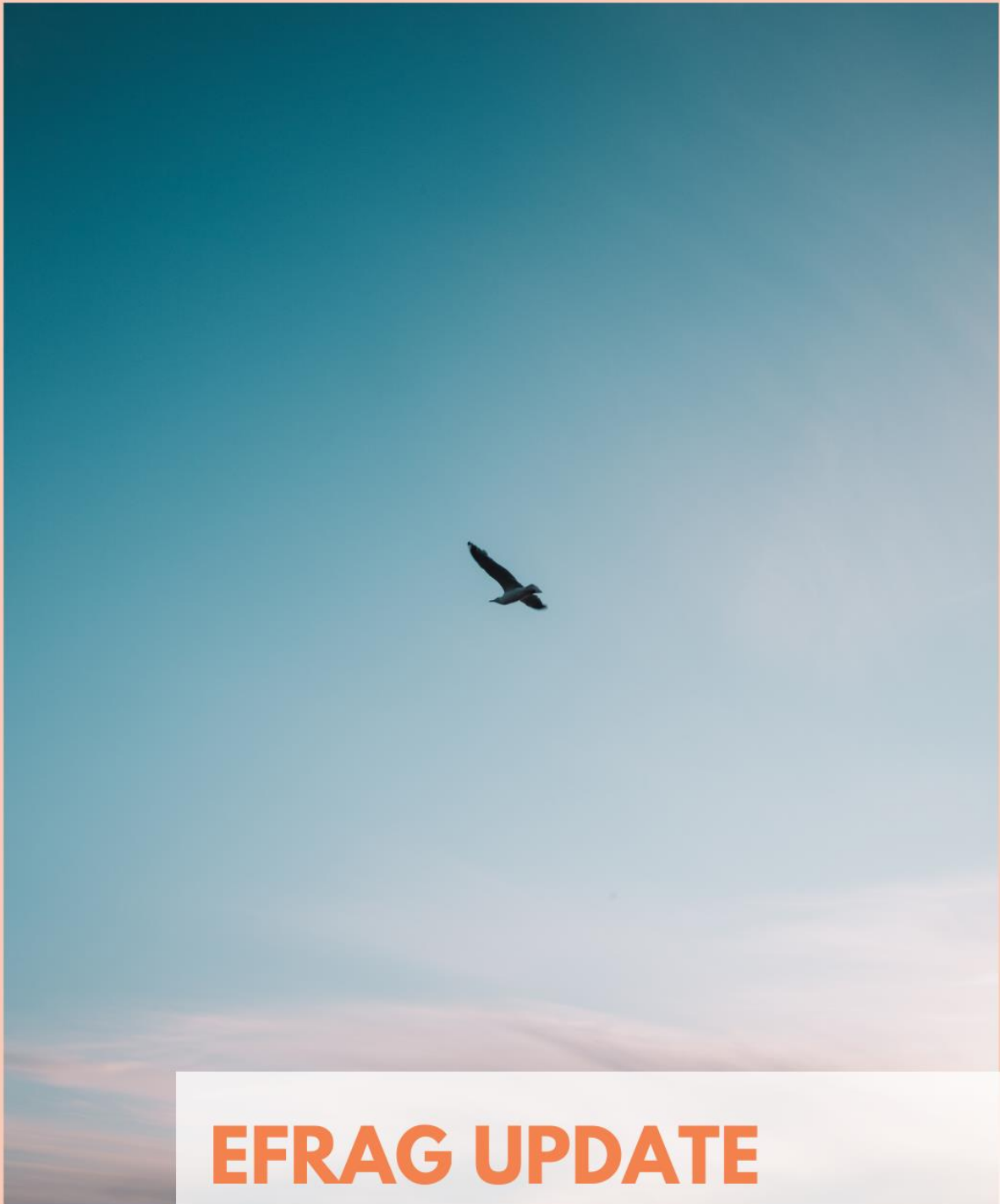




# EFRAG

Europe's voice in corporate reporting

**JUNE 2023**



## **EFRAG UPDATE**

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

## Contents

EFRAG UPDATE <b>June 2023</b> .....	3
Call for Candidates .....	3
EFRAG Governance and due process .....	4
IFASS meeting .....	4
EFRAG'S FINANCIAL REPORTING ACTIVITIES .....	5
Publications .....	5
Open Consultations .....	5
EFRAG Financial Reporting Board (FRB) .....	5
Physical meeting 20 June 2023 .....	5
EFRAG FRB June 2023 written procedures .....	6
EFRAG FRB expected July 2023 written procedures .....	6
EFRAG Financial Reporting Technical Expert Group (FR TEG) .....	6
Webcast meeting 6 June 2023 .....	6
EFRAG'S SUSTAINABILITY REPORTING ACTIVITIES .....	9
Commissioner McGuinness meets the SRB .....	9
Open consultations .....	9
Call for Candidates: FI Advisory panels .....	9
WEBINARs and On-line outreaches .....	10
EFRAG Sustainability Reporting Board (SRB) .....	11
EFRAG Sustainability Reporting Technical Expert Group (SR TEG) .....	12
Other involvement in sustainability reporting .....	13

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## CALL FOR CANDIDATES

EFRAG is currently recruiting technical staff for both its Financial and Sustainability Reporting Pillars. Check our [vacancies webpage](#) and apply now.



### **FR - Senior Technical Manager**

Are you an expert in Financial Reporting, with robust knowledge of IFRS Standards?

Join EFRAG as Senior Technical Manager and be at the forefront of shaping financial reporting developments!

Read the complete [job description](#) and submit your application at [Rh@efrag.org](mailto:Rh@efrag.org).

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



### **FR - Senior Technical Manager - Financial Instruments Specialist**

Experts in Financial Reporting, with in-depth experience are invited to read the [job description](#) and send their application now.

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



### **SR - Environmental specialist**

Join the EFRAG sustainability reporting pillar: a multicultural, fast-evolving environment. Applications are welcome for professionals with over 5 years experience.

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



### **Editor**

The role, to be based at EFRAG's office in Brussels, is critical in ensuring that EFRAG's English-published documents, accessed by a global audience, are of the highest quality.

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



### **FR - Assistant Technical Manager**

Interested in Financial Reporting? Join EFRAG as assistant technical manager, a unique opportunity to develop your career.

Read the complete [job description](#) and how to apply [here](#).

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

## **EFRAG GOVERNANCE AND DUE PROCESS**

### **Launch of the EFRAG Connectivity Advisory Panel - Composition and Related Community**

EFRAG FR TEG approved the composition of the EFRAG Connectivity Advisory Panel (EFRAG CAP) and welcomed the establishment of the EFRAG Connectivity Community.

EFRAG CAP will advise EFRAG FR TEG on the proactive research project on the connectivity between financial reporting and sustainability reporting information.

The EFRAG Connectivity Community is planned as a virtual group that will contribute on an as needed basis to EFRAG activities on connectivity.

Stakeholders with an interest in financial and sustainability reporting, are invited to join this community. It is still possible to join the Community by expressing an interest (including CV) to [connectivityproject@efrag.org](mailto:connectivityproject@efrag.org).

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

## **IFASS MEETING**

On 23 June 2023, EFRAG issued a [report](#) with the key messages and points of discussion from the financial and sustainability reporting topics covered at the April 2023 IFASS (International Forum of Accounting Standard Setters) meeting.

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

# EFRAG'S FINANCIAL REPORTING ACTIVITIES

## PUBLICATIONS

### Final Endorsement Advice

On 2 June 2023, EFRAG completed its due process regarding Amendments to IAS 12 *International Tax Reform—Pillar Two Model Rules* and submitted its [Endorsement Advice Letter](#) to the European Commission. EFRAG assesses that the Amendments meet the technical endorsement criteria of the IAS Regulation and is conducive to the European public good. EFRAG therefore recommends its endorsement.

EFRAG has also published its [Feedback Statement](#) related to its [final comment letter](#) on the proposed amendments to IAS 12.

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

## OPEN CONSULTATIONS

Title and description	Closing date
Academic study on the effects of IFRS 15 <i>Revenue from Contracts with Customers</i>	1 September 2023
EFRAG Discussion Paper <i>Accounting for Variable Consideration from a Purchaser Perspective</i>	30 November 2023

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

## EFRAG FINANCIAL REPORTING BOARD (FRB)

### Physical meeting 20 June 2023

The EFRAG FRB held a webcast meeting on [20 June 2023](#) and discussed the following topic:

### **EFRAG research project *The Statement of Cash Flows and Related Matters***

The EFRAG FRB agreed that the EFRAG's proactive research project on the statement of cash flows was an important project and agreed with the scope of the project suggested by EFRAG FR TEG.

The EFRAG FRB agreed that the project will list, and shortly discuss, different alternative objectives/uses of the statement of cash flows; list the issues with current requirements/practice; and discuss whether the IASB could consider the issues by targeted amendments, or a comprehensive review of IAS 7 *Statement of Cash Flows* would be necessary to deal with the issues in a satisfactory manner.

The EFRAG FRB considered that the project should focus on the fundamental issues and take into consideration the usefulness of the statement of cash flows for financial institutions.

### **Update of workplan and any other matters**

The EFRAG FRB discussed and approved the technical workplan until December 2023.

### **Next meeting**

The EFRAG FRB will hold a next meeting on 13 July 2023.

#### EFRAG FRB June 2023 written procedures

The EFRAG FRB approved the following document using written procedures in June:

- Final Endorsement Advice on *International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12)*.

#### EFRAG FRB expected July 2023 written procedures

The EFRAG FRB is not expected to approve any document using written procedures in July.

## **EFRAG FINANCIAL REPORTING TECHNICAL EXPERT GROUP (FR TEG)**

#### Webcast meeting 6 June 2023

EFRAG FR TEG held a webcast meeting on [6 June 2023](#) and discussed the following topics:

### **IASB Project *Business Combinations - Disclosures, Goodwill and Impairment***

EFRAG FR TEG discussed the March and May IASB's tentative decisions on improvements to the goodwill impairment test under IAS 36 *Impairment of Assets*.

Members generally welcomed the IASB's tentative decisions on future uncommitted restructurings, improvements or enhancements, post-tax cash flows and discount

rate, disclosure requirements, and alternatives to an annual quantitative impairment test.

However, EFRAG FR TEG highlighted the importance for the IASB to provide further application guidance in the Standard on what type of cash flows could be included in the calculation and on how to reflect deferred taxes in future cash flows and in the carrying amount of the asset/cash generating unit ('CGU') when making a post-tax calculation. In addition, members considered that in order to improve effectiveness of the impairment test, the IASB should pursue the suggestions to address the 'shielding effect' (e.g., allocating goodwill to the lowest level of CGU).

No decisions were taken at the meeting.

### **IASB Project *Financial Instruments with Characteristics of Equity***

EFRAG FR TEG discussed the April and May IASB tentative decisions. The topics specifically discussed were the scope of IFRS 7 *Financial Instruments: Disclosures*, potential additional disclosures to IFRS 7, transition and reduced disclosures for the forthcoming IFRS Accounting Standard on *Subsidiaries without Public Accountability*.

In general, members considered that the IASB was moving in the right direction and welcomed the additional clarifications and disclosures on financial instruments with characteristics of equity. However, members had some specific comments and questions on the proposed disclosures, particularly on the IASB's proposed clarifications and disclosures related to the reclassification of financial instruments between financial liabilities and equity instruments applying IAS 32 *Financial Instruments: Presentation*.

No decisions were taken at the meeting.

### **IASB Project *Provisions - Targeted Improvements***

EFRAG FR TEG was provided with an update on the development of the IASB project and discussed the approach to amending the definition of the liability in IAS 37.

Members indicated that it is an important and challenging project and highlighted the interaction with other IFRS Standards, for e.g., IAS 12 *Income Taxes*, IFRS 9 *Financial Instruments*, and IAS 32 on variable consideration. Members also discussed the concept of past event which is part of the definition of a liability.

No decisions were taken at the meeting.

### **IASB Research Project *Equity Method***

EFRAG FR TEG received an update on recent decisions made by the IASB on the project at its March and April 2023 meetings. In particular, how an investor applies

equity method for purchasing additional interest in an associate while retaining significant influence and for transactions with an associate.

EFRAG FR TEG also discussed whether deferred tax asset (or liability) should be recognised on the difference between the share of the fair value and the tax base of the associate's identifiable assets and liabilities.

Members generally considered that tentative decisions on the three above-mentioned topics were not expected to be controversial and provided practical solutions to identified issues.

No decisions were taken at the meeting.

### **EFRAG Research Project *The Statement of Cash Flows and Related Matters***

EFRAG FR TEG discussed the scope of EFRAG's proactive research project. EFRAG FR TEG considered that a project could be useful for the IASB that would list, and shortly discuss, different alternative objectives/uses of the statement of cash flows; list the issues with the current requirements/practice and discuss whether the IASB could consider the issues by targeted amendments, or a comprehensive review of IAS 7 would be necessary. It was concluded to propose this scope to the EFRAG FRB for decision.

### **Next meeting**

EFRAG FR TEG will hold a next meeting jointly with EFRAG CFSS on [4 July 2023](#) and separately on [5 July 2023](#).



# EFRAG'S SUSTAINABILITY REPORTING ACTIVITIES

## COMMISSIONER MCGUINNESS MEETS THE SRB

Commissioner McGuinness will address the EFRAG SRB on **6 July from 14.30 to 15.30** on the draft Delegated Act for the first set of ESRS and the EFRAG sustainability reporting work.

To follow the meeting, please register [here](#).

## OPEN CONSULTATIONS

Title and description	Closing date
EFRAG's DCL to the ISSB's ED Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates	17 July 2023
EFRAG's response to the ISSB's Request for Information: Consultation on Agenda Priorities	1 August 2023

## CALL FOR CANDIDATES: FI ADVISORY PANELS

EFRAG SR TEG launched a call for candidates for the EFRAG Sustainability Reporting Financial Institutions (FI) Advisory Panels, i.e., Banking, Capital Markets and Insurance. Candidates should complete the relevant online form by close of business on Monday, **31 July 2023**.

These advisory panels will advise the EFRAG SR TEG on the development and maintenance of the sector-specific ESRS on financial institutions and in general to provide sector-specific input in the EFRAG sustainability reporting activity.

The role, competencies, composition, and modus operandi of the EFRAG FI Advisory Panels are further described in the Terms of Reference (Banking; Capital Markets and Insurance). The terms of reference and information how to apply are available [here](#).

## WEBINARS AND ON-LINE OUTREACHES

### **ISSB consultations on agenda consultation and SASB internationalisation**

On 15 June 2023, EFRAG and ISSB organised a joint online outreach event on EFRAG's responses to the ISSB's Request for Information ('RFI') on its Agenda consultation and International Applicability of SASB Standards Exposure Draft. The aim of the outreach event was to encourage discussion and to receive input from constituents.

The webinar started with an introductory speech by Saskia Slomp and Patrick de Cambourg, EFRAG CEO and EFRAG SRB Chair respectively, followed by presentations from the ISSB and EFRAG.

Panel discussions addressed the strategic direction and balance of ISSB's activities, the proposed research and standard setting projects (biodiversity, human capital and human rights), integration in reporting and the internationalisation of SASB standards including the update of the SASB XBRL Taxonomy.

Alongside the presentations, the panellists participated in the discussion and provided their views. Throughout the discussion, the audience could provide their views through online polling questions and questions to the speakers. The polling surveys' responses and the questions asked by participants are set out in this report in the relevant sections. More than 1000 people registered for the event, with almost half of them following the event live.

On 28 June 2023, DRSC and EFRAG organised an online outreach event on both organisation's response to both consultations. The aim of the outreach event was to encourage discussion and to receive input from the German speaking community to contribute to DRSC's and EFRAG's comment letters.

### **LSME Community Workshop**

On 26 June 2023, EFRAG held a workshop with the LSME community followed by a public session. The workshop aimed at presenting the updated working papers draft LSME ESRS and how the building block approach interconnects LSME and VSME ESRS (the potential voluntary standard for non-listed SMEs and micro enterprises). Discussions focused on the outcome of the preparatory questionnaire that was sent to LSME community to test the proposals. General support emerged for EFRAG's approach.

## EFRAG SUSTAINABILITY REPORTING BOARD (SRB)

Meeting date	Topics covered
14 June 2023	<ul style="list-style-type: none"> <li>• Draft Delegated Act first set of ESRS</li> <li>• Materiality assessment implementation guidance (drafting session - closed meeting)</li> <li>• Value chain implementation guidance (drafting session - closed meeting)</li> <li>• Joint ESAs consultation paper on SFDR (educational session - closed meeting)</li> </ul>
28 June 2023	<ul style="list-style-type: none"> <li>• LSME approach and building blocks</li> <li>• Materiality assessment implementation guidance (drafting session - closed meeting)</li> </ul>

The next EFRAG SRB meeting is with Commissioner McGuinness [6 July 2023](#) as mentioned on page 9. The following meeting after that will be held on [12 July 2023](#).

### **Draft Delegated Act first set of ESRS**

On 14 June 2023, the EFRAG SRB received a presentation in a public meeting by the European Commission, which summarised the main changes and modifications to the draft ESRS, following the publication of the draft Delegated Act on 9 June 2023. There was a wide interest of stakeholders 1676 persons attended live or watched the recording afterwards.

The presentation was followed by an exchange of views. The key changes discussed were the increased scope of materiality assessment, the treatment of SFDR indicators, the datapoints that have been changed to be optional, the threshold of 750 employees and the implementation of the new phase-in requirements.

### **Listed SME standard (LSME) and voluntary ESRS for non listed SME (VSME) - approach and building blocks**

On 28 June 2023, the EFRAG SRB received a presentation of the progresses made by the EFRAG Secretariat and EFRAG SR TEG on the development of the draft LSME and VSME Exposure Drafts. The draft has been updated to reflect the changes made to the draft ESRS in the draft Delegated Act, such as on the scope of materiality. The EFRAG SRB also discussed the Building Blocks approach. Several important issues were addressed, such as the role and scope of VSME, particularly regarding the role of micro-entities, the individual statement perspective (as LSME will be applied only in the preparation of the individual sustainability statement). The EFRAG SRB supported the proposal to consult at the same time on LSME and VSME and to

include in the scope of the consultation the building block approach and on how to develop a proportionate voluntary standard for micro-entities.

## EFRAG SUSTAINABILITY REPORTING TECHNICAL EXPERT GROUP (SR TEG)

Meeting date	Topics covered
08 June 2023	<ul style="list-style-type: none"> <li>• Terms of reference for FI WGs (governance topic - closed session)</li> <li>• Materiality assessment implementation guidance (drafting session - closed session)</li> <li>• Value chain implementation guidance (drafting session - closed session)</li> </ul>
19 June 2023	<ul style="list-style-type: none"> <li>• Value chain implementation guidance (drafting session - closed session)</li> <li>• LMSE draft</li> </ul>
21 June 2023	<ul style="list-style-type: none"> <li>• LSME draft (drafting session - closed session)</li> <li>• OECD Presentation on the revised Guidelines for Multinational Enterprises on Responsible Business Conduct (educational session open also to EFRAG SRB members - closed session)</li> </ul>
26 June 2023	<ul style="list-style-type: none"> <li>• Value chain implementation guidance (drafting session - closed session)</li> <li>• Updates on Draft Delegated Act (closed session)</li> </ul>

The next EFRAG SR TEG meeting will be held on [3 July 2023](#).

### Listed SME standard

On 19 June 2023, EFRAG SR TEG discussed the relevance of the building block components, including the input basis for conclusion, with a focus on new number of entities in scope and individual sustainability reporting. The discussion also revolved around changes in the LSME ESRS working papers. EFRAG SR TEG considered the changes to the working papers due to the draft delegate act changes to the draft ESRS concerning consolidated reporting and phase-in approach.

## OTHER INVOLVEMENT IN SUSTAINABILITY REPORTING

### **Platform on Sustainable Finance (PSF)**

EFRAG is an official observer in the second mandate of the Platform on Sustainable Finance and is represented by Kerstin Lopatta, EFRAG SRB Vice-Chair. EFRAG participates in *Usability and Data* (SG1) and in the *Technical Working Group advising on the technical screening criteria* (SG2).

Regular subgroups meetings take place as well as educational sessions.

The fifth (special) meeting of the PSF held on 26 June 2023 was dedicated to the discussion and adoption of the PSF response to the SFDR RTS consultation of the ESAs.

The PSF is one of the organisations with whom the EC shall consult on the technical advice provided by EFRAG in form of the first set of draft ESRS as stipulated by the CSRD. However, since the PSF was not in existence at that moment they provided their input during the feedback period of the draft Delegated Act ending 7 July 2023.

A workshop was held on materiality on 30 June. EFRAG gave a short presentation on materiality in this workshop. A (special) 6th plenary meeting was held on 4 July to discuss and adopt the draft PSF response to the call for feedback on the draft Delegated Act on the first set of ESRS.

On 27 June 2023, the EU Taxonomy Delegated Acts and the EC Recommendation on Transition Finance have been officially adopted by the EC (the final adopted texts can be found on the [EC's website](#) ([Environmental Delegated Act](#) and [Climate Delegated Act](#))).

The next PSF meeting is scheduled for 12 July 2023.