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EFRAG Research activities – looking ahead

Objective

- 1 The objective of the session is to obtain EFRAG TEG input on the future Research agenda of EFRAG.

Background

- 2 EFRAG has recently issued its DP *Goodwill impairment test: can it be improved?* with a 31 December comment deadline. With the publication of the DP, this EFRAG Research project is substantially completed – input from constituents will be fed into EFRAG comments on the IASB proposed amendments to IAS 36 *Impairment of Assets* for which a DP is expected in the first half of 2018.
- 3 As a consequence, there should be some internal capacity available to start one additional Research project. EFRAG Secretariat will engage over the autumn with its working groups to identify potential candidates for new Research projects.
- 4 In general terms, Research projects should have the following characteristics:
 - (a) They must relate to financial reporting issues – EFRAG remit does not extend to wider corporate reporting;
 - (b) They must relate to issues of interest to European constituents;
 - (c) They should provide an opportunity to effectively influence the IASB;
 - (d) They should be able to be completed in a reasonable time.
- 5 It is important to consider the interaction with the IASB Research programme. Research projects that address topics on the IASB agenda have the potential to exercise influence more directly and in the short-medium term; on the other side, EFRAG should be wary of duplicating the work of the IASB. Appendix 1 illustrates the current IASB Research programme pipeline. IASB has active projects on:
 - (a) Financial Instruments with Characteristics of Equity – a DP is expected by the end of the year;
 - (b) Business Combinations under Common Control – a DP is expected in the first half of 2018;
 - (c) Dynamic Risk Management – a DP is expected by the end of 2018;
 - (d) Primary Financial Statements – a DP is expected in 2018.
- 6 Finally, it could be helpful to have a mix of projects with a narrow, practical focus and projects that address wider conceptual issues with a ‘blue-sky thinking’ approach.
- 7 As a reminder, in 2015 EFRAG conducted its own agenda consultation. The main message from respondents was that EFRAG should more clearly define the purpose of each of its proactive projects and use the same evidence-based approach that it requires from the IASB.

- 8 The EFRAG Secretariat has preliminarily identified two possible Research projects. We explain the rationale for each in the next paragraphs.

Intangible assets

- 9 Evidence shows that market valuations generally exceed the accounting equity of firms. It is claimed that the main reason is the lack of recognition or inappropriate measurement of intangible assets, such as know-how, market share, assembled workforce, research and so on. However, there is little or no active market for intangibles and they may be not tradeable separately, so recognition and measurement present challenges.
- 10 EFRAG could start a Research project to investigate the quantitative gap between market valuations and accounting equity and the reasons thereof, and develop alternatives to provide more relevant information on intangibles driving the market valuations of firms.
- 11 In relation to the characteristics listed above in paragraph 4, this is the EFRAG Secretariat assessment:
- (a) Does the topic relate to financial reporting issues? Yes;
 - (b) Is the topic of interest to European constituents? We would need to collect more evidence, however this is considered by many an important gap in IFRS;
 - (c) Could the project effectively influence the IASB? There is no current project on the IASB agenda. The IASB has included in its Research pipeline a project on Extractive Activities, but concluded that any attempt to address recognition and measurement of intangible assets and R&D would require significant resources, with very uncertain prospects for any significant improvement;
 - (d) Could the project be concluded in a reasonable time? The project is likely to require a significant amount of time and resources. However, the project could be split and managed in different phases. EFRAG could reconsider the opportunity to continue the project at the end of each phase.

Variable and contingent payments

- 12 The issue of variable and contingent payments has been raised in different Standards recently. Both IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* include guidance on recognition and measurement. However, the guidance is not fully consistent.
- 13 The Interpretations Committee had a long-standing project on variable payments for tangible and intangible assets, with the objective being to address initial recognition and subsequent measurement. The project was put on hold pending completion of IFRS 16, which was expected to provide relevant guidance; however, the IFRS IC eventually did not agree to extend similar requirements to tangible and intangible assets and dropped the project.
- 14 In relation to the characteristics listed above in paragraph 4, this is the EFRAG Secretariat assessment:
- (a) Does the topic relate to financial reporting issues? Yes;
 - (b) Is the topic of interest to European constituents? We would need to collect more evidence, however this topic has been raised in different Standards and there is evidence that existing requirements are incomplete and not fully consistent;

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- (c) Could the project effectively influence the IASB? Currently there is no comprehensive project on the IASB agenda. The EFRAG Secretariat considers that, if a principle-based solution could be identified, the IASB could use that solution when developing new Standards and Interpretations or in the context of future post-implementation reviews;
- (d) Could the project be concluded in a reasonable time? The Interpretations Committee did a significant amount of work on the issue, which could be used as a basis for the EFRAG Research topic. This should allow to limit the time required.

Question to EFRAG TEG

- 15 Do you support either of the two topics identified above? If so, do you have specific suggestions on the scope?
- 16 Do you have suggestions for other Research topics? Please explain why the project is relevant to European constituents.

APPENDIX 1

Research project	Comments
<p>Equity Method - the equity method is used in accounting for investments in associates and joint ventures and is permitted for use in separate financial statements. The project had been assessing whether practice problems could be addressed by amending the equity method or whether a more fundamental review is needed.</p>	<p>The Board plans no further work until the Post-implementation Review (PIR) of IFRS 11 <i>Joint Arrangements</i> is undertaken.</p>
<p>Pollutant Pricing Mechanisms - This project had been assessing whether the Board should consider addressing any diversity that may exist in accounting for pollutant pricing mechanisms (including emissions trading schemes).</p>	<p>The Board plans no further work until the revised <i>Conceptual Framework</i> is closer to finalisation.</p>
<p>Provisions - This project had been assessing whether the Board should consider amending any aspects of IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> in the light of possible changes to the <i>Conceptual Framework</i>.</p>	<p>The Board has completed its discussion of the staff's initial research. It plans no further work until the revised <i>Conceptual Framework</i> is closer to finalisation.</p>
<p>Extractive Industries - This project would assess whether the Board should introduce accounting requirements for exploration, evaluation, development and production of minerals, and oil and gas.</p>	<p>No work has yet been done on this project.</p>
<p>Variable and contingent consideration - The Board will determine the scope and objective of this project when it becomes active.</p>	<p>The IFRS Interpretations Committee has considered this topic but has been unable to conclude on all of the issues because of interactions between several Standards.</p>

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Feasibility studies	Comments
<p>High Inflation - The project's objective will be to assess whether it would be feasible to extend the scope of IAS 29 Financial Reporting in Hyperinflationary Economics to cover economies subject to only high inflation, without amending other requirements of IAS 29.</p>	<p>If the research establishes that it would not be feasible to extend the scope of IAS 29 in this way, the staff expects to recommend no work on IAS 29.</p>
<p>Pensions Benefits that depend on assets returns - The project's objective will be to assess whether it would be feasible to develop an approach that focuses on the relationship between the cash flows included in the measurement of those benefits and the discount rate.</p>	<p>If the research establishes that this approach would not be feasible, the staff expects to recommend no work on pensions.</p>
<p>SME that are subsidiaries - The project's objective will be to assess whether it would be feasible to permit SMEs to use the recognition and measurement requirements in IFRS Standards and the disclosure requirements in the IFRS for SMEs.</p>	<p>If the research establishes that this approach would not be feasible, the staff expects to recommend no work in this area.</p>