

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

IFRS 18 Endorsement Advice Considerations

Objective

- 1 The objective of the session is to obtain EFRAG FR TEG's feedback on the selected parts of the draft endorsement advice on IFRS 18 *Presentation and Disclosure in Financial Statements*.
- 2 The EFRAG Secretariat would appreciate to receive editorial comments separately through the share file provided, thus allowing the session to focus the discussion on the most important topics.

Background and useful links

- 3 On 9 April 2024, IFRS 18 was issued by the IASB. The link to the Accounting Standard can be found [here](#).
- 4 In December 2019, the IASB published the [Exposure Draft](#) focused on improving how information is communicated in the financial statements, with a focus on information about performance in the statement of profit or loss. The IASB comment period ended in September 2020. EFRAG sent its [Final Comment Letter](#) on November 2020. EFRAG welcomed the Exposure Draft and the IASB's efforts to improve the structure and content of the primary financial statements.
- 5 In December 2022, EFRAG published the [Summary Report and Recommendations](#) which gather feedbacks from European Stakeholders.
- 6 The link to the Endorsement plan can be found here: [link](#)

Structure of the session

- 7 The following areas are subject to discussion:
 - (a) Appendix 1: Understanding the changes brought about by IFRS 18
 - (b) Appendix 2: Technical assessment of IFRS 18 against the endorsement criteria:
Relevance is drafted
 - (c) Appendix 3: Assessing whether IFRS 18 is conducive to the European public good.

- 8 EFRAG FR TEG members are presented with the selected parts of the draft endorsement advice and are invited to provide their comments and considerations. The European Commission did not request EFRAG to assess any additional topics, therefore the normal endorsement structure is followed. The discussion on appendix 3 will be split into two parts. For each section the EFRAG Secretariat has listed in this cover note the related questions:

First Part: Appendix 1 – Understanding the changes brought about by IFRS 18

- 9 Appendix 1 is focusing on the background of the project and issues which are expected to be addressed by IFRS 18. Appendix 1 outlines the main requirements introduced by the Standard, namely – the definition of five categories within the statement of profit or loss and defined sub-totals to provide useful information and improve comparability, the introduction of management-defined performance measures and related disclosures to promote transparency and discipline, the enhanced guidance on grouping of information to help an entity provide useful information and other changes to the statement of cash flows and statement of financial position.
- 10 The appendix is drafted and can be finalised after receiving the review remarks from EFRAG FR TEG members.

Questions for EFRAG FR TEG

- 11 Do you agree with the structure of Appendix 1 and its content?
- 12 Do you consider that there are other aspects that should be highlighted in these sections?

Second Part: Appendix 2 – Technical assessment of IFRS 18 against the endorsement criteria

- 13 For Appendix 2 the assessment of the technical criterion relevance is drafted. In relation to relevance several topics were requested to be discussed. Relevance is the topic that was mentioned as a critical endorsement criterion for numerous issues to be discussed in detail. In this respect, almost every critical topic is covered in the chapter relevance-assessment.
- 14 During the EFRAG FR TEG - CFSS meeting in June we received additional feedback on the topics to be discussed in the respective sections. The [table](#) presented at that meeting (see page 25 and following) gives an overview about the expected structure of appendix 2.

Questions for EFRAG FR TEG

- 15 Do you agree with the proposed structure of Appendix 2 (assessment of the technical criteria focusing on the most significant areas identified) and the information presented within the sections assessing relevance?
- 16 Do you consider that there are other aspects that should be highlighted in these sections?

Third Part: Appendix 3 – Assessing whether IFRS 18 is conducive to the European public good – cost benefit assessment

- 17 As requested by the EFRAG FRB, EFRAG analysed the costs and benefits of IFRS 18. 45 entities are subject to the analysis with an increased number for banks and insurance companies as approved by the EFRAG FRB in its May 2024 session. The result of the desk top analysis is illustrated as part of Appendix 3.
- 18 The Impact assessment is done separately for corporates and financial institutions focusing on the effects on:
- (a) Statement of Financial Performance
 - (b) Statement of Financial Position
 - (c) Statement of Cash flows
 - (d) Management-defined performance measures
- 19 The EFRAG Secretariat comes to the overall conclusion related to the costs and benefits of IFRS 18 assessing that the benefits are expected to outweigh both the implementation costs and on-going costs associated with IFRS 18.

Questions for EFRAG FR TEG

- 20 Do you have any comments on the general approach and scope of the cost-benefits assessment?
- 21 Do you have any comments on the substance of the analysis performed and the conclusions reached on each of the sections for both corporates and financial institutions?
- Costs – benefits related to statement of financial performance
 - Costs – benefits related to the statement of financial position
 - Costs – benefits related to the statement of cash flows
 - Costs – benefits related to the MPMs
- 22 Do you see a need for additional research to be performed on any specific aspect of the costs-benefits considerations (ex. additional survey on any specific aspect of the analysis)?
- 23 Do you have any comments on the drafting of the section?

Fourth Part: Appendix 3 – Assessing whether IFRS 18 is conducive to the European public good – Effects to European Economy, including financial stability and economic growth

- 24 To assess the potential impact of IFRS 18 to the European economy and its effect on competitiveness, a comparison of the requirements of IFRS 18 and US GAAP (and SEC regulation) was conducted. The analysis revealed that similar issues raised by stakeholders under IAS 1, prompting to the enhanced requirements introduced by IFRS 18 (as discussed

in Appendix 1), were also observed in the US. In the US, the FASB is currently working on a project to address the disaggregation of expenses within the statement of financial performance. However, since this project is narrower in scope, it is unlikely to yield benefits greater than IFRS 18, and some of the issues addressed by IFRS 18 will likely persist under US GAAP.

- 25 Based on the preliminary analysis, the EFRAG Secretariat concludes that entities reporting under IFRS 18 will provide more relevant, reliable, understandable and comparable information than those reporting under US GAAP. Academic research suggests that increased transparency of financial performance information reduces a firm's cost of capital, indicating that IFRS 18 could offer such an advantage to entities applying IFRS Accounting Standards. As such, the EFRAG Secretariat did not identify any adverse effect to the European economy, including financial stability and economic growth.

Questions for EFRAG FR TEG

- 26 Do you have any comments in relation to how the effects on the European economy can be assessed? Do you agree with the conclusions reached by the Secretariat following the comparison with US GAAP requirements?
- 27 Do you have any comments on the drafting of the section?