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## IFRS 18 Draft Endorsement Advice – Cover Note

### Objective

- 1 The objectives of the session are:
  - (a) to present EFRAG FR TEG the completed draft endorsement advice on IFRS 18 *Presentation and Disclosure in Financial Statements*, following the feedback provided at October FR TEG meeting and subsequent feedback provided by the IFRS 18 sounding board consisting of several EFRAG FR TEG members;
  - (b) to obtain EFRAG FR TEG's additional feedback on the draft endorsement advice; and
  - (c) to agree to recommend EFRAG's draft endorsement advice for approval to EFRAG FRB.

### Background and useful links

- 2 On 9 April 2024, IFRS 18 was issued by the IASB. The link to the Accounting Standard can be found [here](#).
- 3 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.
- 4 In December 2022, EFRAG published the [Summary Report and Recommendations](#) which gather feedbacks from European Stakeholders.
- 5 The link to the Endorsement plan can be found here: [link](#)

### Structure of the session

- 6 The following areas will be discussed at today's meeting:
  - (a) Appendix 1: Understanding the changes brought about by IFRS 18
  - (b) Appendix 2: Technical assessment of IFRS 18 against the endorsement criteria

- (c) Appendix 3: Assessing whether IFRS 18 is conducive to the European public good.
  - (d) Cover letter
- 7 As a reminder, the European Commission did not request EFRAG to assess any additional topics, therefore the typical endorsement structure is followed ([Endorsement Advice Request](#)). 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

- 8 EFRAG FR TEG members were generally satisfied with the content of the Appendix 1 presented at the October meeting. Among others, the following minor editorial changes have been incorporated:
- (a) A reference that IFRS 18 was approved by the IASB on a consensus basis;
  - (b) Clarified in paragraph 4 that some IAS 1 requirements are retained in IFRS 18 (or IAS 8), with limited changes; and

In explaining the transition provisions in IFRS 18 in paragraph 36, the reference of the ‘accounting policy choice’ under paragraph 18 of IAS 28 has been replaced with ‘measurement methods’.

#### Questions for EFRAG FR TEG

- 9 Do you have any comments on the Appendix 1?

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

*EFRAG FR TEG meeting 7 October 2024*

- 10 At October meeting EFRAG FR TEG members provided their comments on the structure of Appendix 2 and on the assessment of the *relevance* technical criterion.
- 11 Comments provided by EFRAG FR TEG related to the structure of the document (which were considered when finalising the document):
- (a) considerations whether the Appendix 2 should be restructured by analysing each major IFRS 18 requirement against the endorsement criteria instead of following the technical endorsement criteria. After the discussion within EFRAG FR TEG, it was decided to keep the current structure following the technical endorsement criteria to be consistent with previous endorsement advices;
  - (b) considerations on the structure within each technical criterion suggesting to harmonise the structure (i.e., starting with general comment on the criterion before discussing in more details specific topics);
  - (c) considerations on splitting the assessment within each technical criterion to differentiate the assessment relevant to the financial institutions, corporates or both types of entities or at least highlighting the specifics for financial institutions in a separate chapter;
  - (d) concerns expressed with regard to the length of the relevance criterion assessment and the overall tone, highlighting that it is important to present a balanced view (which includes benefits) and not focus primarily on the issues.

*Changes made to Appendix 2*

- 12 The EFRAG Secretariat finalised the drafting of Appendix 2 taking into account the following comments and suggestions received:
- (a) Added paragraph 14 to emphasise the balanced approach taken by the IASB when developing IFRS 18 requirements. Indeed, many of the stakeholders' recommendations and concerns raised during the ED-consultation and the redeliberation phases have been reconsidered or at least further discussed by the IASB, as also reflected in the Basis for Conclusion;
  - (b) The structure was adjusted to ensure consistency of presentation. In particular, the general positive feedback supporting the conclusion on each endorsement criterion is followed by more detailed analysis of matters for which stakeholders expressed some concerns or provided mixed views and arguments, which overall do not prevent IFRS 18 from meeting each of the criteria and from delivering prudent accounting.
  - (c) When completing the assessment of all other technical criteria, the EFRAG Secretariat reviewed Appendix 2 to ensure that there was no repetition with the matters already presented in the section discussing relevance criterion. As such, all subsequent sections dedicated to other technical endorsement criteria were shorter.
- 13 As suggested at the October EFRAG FR TEG meeting the EFRAG Secretariat explored two alternatives on presenting the assessment relevant to the financial institutions: a) to include a separate section specific to financial institutions for each endorsement criterion or b) to include specific reference to financial institutions' concerns and arguments within dedicated sections of the assessment. To avoid duplications and too long sections, the IFRS 18 sounding board's members expressed their preference for the second option. Therefore, no further changes to the structure were made. However, in Appendix 1 it is now the IASB's aim to develop a sector agnostic standard highlighted. This explanation of the IASB's approach might help to understand the issues raised by the industry as such an approach cannot be the optimal solution for all industries - but it has the decisive advantage of a consistent approach.

**Questions for EFRAG FR TEG**

- 14 Do you have any comments on the Appendix 2?

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

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- 15 Members did not provide comments on this chapter.

*Changes made to Appendix 3 – cost benefit assessment*

- 16 The EFRAG Secretariat better reflected the feedback received regarding the changes brought to the statement of cash flows, as a result of the new IFRS 18 requirements. Therefore, the following changes have been made to the cost-benefit assessment:

- (a) Better reflected the feedback received from stakeholders (notably preparers) about the implementation costs and operational burden that result from changes brought by IFRS 18 to the statement of cash flows (paragraph 105);
- (b) Included the feedback received from stakeholders suggesting that the lack of cohesiveness in the labelling of categories in the statement of profit of loss and the statement of cash flows creates confusion (paragraph 106);
- (c) Included a conclusion on the cost-benefit analysis of the changes brought to the statement of cash flows, as a result of the new IFRS 18 requirements, to suggest that the enhanced comparability and transparency justify the costs in the long-term (paragraph 107);
- (d) The citation from speeches was replaced by feedback received from the user community (paragraph 154).

**Questions for EFRAG FR TEG**

- 17 Do you have any comments on Appendix 3 section related to cost – benefit assessment?

**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**

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- 18 Members agreed to the approach to compare the requirements under IFRS 18 and US GAAP for understanding the effects to the European economy, particularly regarding competitiveness. They agreed to refine it based on feedback from the DEA public consultation, before submitting the FEA to the EC.
- 19 Members considered Appendix 3 to be comprehensive and sufficiently detailed, and only provided the following minor suggestions:
- (a) Removal of citations from speeches made during various conferences, and instead use more factual evidence to back-up the arguments presented;
  - (b) Before the FEA is published, the section providing the comparison between IFRS 18 enhanced requirements on grouping of information and the FASB project Disaggregation-Income Statement Expenses should be reviewed to ensure that the conclusions on the final outcome of the FASB project are accurate.
- 20 In addition to the feedback provided during the EFRAG FR TEG meeting on 7 October, the IFRS 18 Sounding Board provided (limited) additional comments/suggestions when reviewing the document.

*Changes made to Appendix 3 - Assessing whether IFRS 18 is conducive to the European public good – Effects to European Economy, including financial stability and economic growth*

- 21 To reflect EFRAG FR TEG members' suggestions, the following main changes (excluding editorial changes) have been made to the content of the assessment of the effects to the European economy:
- (a) To support the comparison between IFRS 18's requirements for disclosure of specified expenses by nature and the FASB's project on Disaggregation-Income Statement Expenses, the expected outcome of the FASB's project was added,

highlighting the key differences from the IFRS 18 requirements. This section will be reviewed after the FASB finalises its project and before submitting the FEA to the EC (paragraphs 194-195);

- (b) In the conclusion on the expected effects on competitiveness to European economy, the citations from speeches were replaced by evidence from key areas addressed by the SEC staff in comment letters and feedback received in the 2021 FASB Agenda Consultation (paragraph 200).

**Questions for EFRAG FR TEG**

- 22 Do you have any comments on Appendix 3 section Effects to European economy?

**Fifth Part: Cover letter**

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- 23 Members provided editorial comments and emphasised that the DEA should reflect the consensus reached by the IASB in developing the standard, taking into consideration various feedback provided by preparers and users of financial statements.

*Changes made to the cover letter*

- 24 The EFRAG Secretariat finalised the drafting of the cover letter highlighting the balance reached by the IASB when developing IFRS 18. The Standard is a result of a consensus between interests of various stakeholder groups.

**Questions for EFRAG FR TEG**

- 25 Do you have any comments to the Cover Letter of the DEA?
- 26 Which comment period would you propose? Please explain why.
- 27 Do you recommend the DEA (contained in the agenda paper 04-02) and the Invitation to comment (contained in the agenda paper 04-03) for approval by the EFRAG FRB?

**Next Steps**

- 28 The EFRAG Secretariat to present and require the approval of the DEA as recommended by the EFRA FR TEG to the EFRAG FRB and to publish the DEA for public consultation.

**Agenda Papers**

- 29 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 04-02 – IFRS 18 - DEA - Letter to the EC; and
  - (b) Agenda paper 04 -03 – IFRS 18 - DEA - Invitation to comment.