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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 (DEA) on IFRS 18 *Presentation and Disclosure in Financial Statements* recommended by EFRAG FR TEG members;
 - (b) to obtain EFRAG FRB's additional feedback on the draft endorsement advice and approval for the publication of the DEA.

Background and useful links

Current activities

- 2 On 9 April 2024, IFRS 18 was issued by the IASB. The link to the Accounting Standard can be found [here](#).
- 3 On 29 April 2024, EFRAG received [Endorsement Advice Request](#). The European Commission did not request EFRAG to assess any additional topics, therefore the typical endorsement structure is followed.
- 4 In accordance with the [endorsement plan](#) approved by the FRB, extensive outreach activities were conducted with the participation of the IASB members based on the final version of the Standard to gather stakeholders' inputs and views on the technical endorsement criteria, cost and benefits analysis and effects on the economy:
 - (a) presentation of IFRS 18 requirements to all EFRAG's working groups;
 - (b) [educational event dedicated to corporates](#) (summary report can be found [here](#));
 - (c) [educational event dedicated to financial institutions](#) (summary report can be found [here](#));
- 5 Based on the feedback collected during the development of the Standard and since its publication, the EFRAG Secretariat identified and presented in July 2024 FR TEG-CFSS meeting the [key topics to be addressed in the DEA](#) and their impact on the endorsement criteria.

Previously gathered feedback

- 6 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. Related feedback statement can be found [here](#).
- 7 In December 2022, EFRAG published the [Summary Report and Recommendations](#) which gather feedbacks from European Stakeholders.

Structure of the session

- 8 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 – cost benefit assessment
 - (d) Appendix 3: Assessing whether IFRS 18 is conducive to the European public good – Effects to European Economy, including financial stability and economic growth
 - (e) Cover letter
- 9 The discussion in the EFRAG FR TEG meetings focused on Appendix 2 and Appendix 3.

Appendix 1 – Understanding the changes brought about by IFRS 18

- 10 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.

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

- 11 Appendix 2 contains EFRAG's assessment of IFRS 18 against the technical endorsement criteria. During the EFRAG FR TEG meeting the structure and the length of appendix 2 was discussed. That included the placement of the concerns expressed by financial institutions. EFRAG FR TEG members focused on reaching the right balance between the support received and concerns expressed by some stakeholders. Concerns expressed are linked to the respective stakeholder group wherever possible. It was decided to include the concerns expressed (when coming from several stakeholders) and the reasoning for a positive assessment.
- 12 EFRAG's overall assessment is that IFRS 18 meets the criteria of understandability, relevance, reliability, and comparability required of the financial information needed for

making economic decisions and assessing the stewardship of management and leads to prudent accounting.

- 13 When assessing these criteria, IFRS 18 requirements are analysed through the main areas of the standard and focusing in addition on the key topics for which some stakeholders expressed concerns or provided mixed views in terms of relevance, reliability, comparability and understandability. However, none of them prevents IFRS 18 from meeting each of the criteria and from delivering prudent accounting. The feedback included in the DEA was partly collected during the ED or redeliberation phase. EFRAG connected the identified topics to the endorsement criteria and confirmed all the identified topics during the DEA phase and ensured the proper connection to the endorsement criteria through numerous meetings after the publication of the standard with a wide range of stakeholders.

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

- 14 As requested by the EFRAG FRB, EFRAG analysed the costs and benefits of IFRS 18. 45 entities are subject to the desktop 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.
- 15 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
- 16 The EFRAG Secretariat notes that the implementation costs might be significant for some companies and will depend on the current practices, systems, processes and business model. However, once the Standard is implemented, the on-going costs are not expected to be significant. On the other hand, users expressed that the benefits expected from the Standard are significant and will have on-going effects. The EFRAG Secretariat comes to the overall conclusion that the benefits are expected to outweigh both the implementation costs and on-going costs associated with IFRS 18.

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

- 17 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. EFRAG FR TEG members discussed the level of detail to be provided in such analysis. It was decided to include a relatively high-level analysis in the DEA at this stage. The availability of analyses may improve at a later stage, when the FEA is prepared, and the analysis contained in Appendix 3 can be added to at a later stage.
- 18 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 has just concluded its work 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.

- 19 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.

Cover letter

- 20 The cover letter reminds the process of developing IFRS 18 and its main provisions highlighting the balance reached by the IASB when developing IFRS 18. As such, the Standard is a result of a consensus between interests of various stakeholder groups.
- 21 Despite certain topics for which some concerns were expressed by certain stakeholders in terms of impact on the technical endorsement criteria or cost and benefit analysis, there are no topics identified that would prevent IFRS 18 from meeting each of the criteria and the benefits associated with it are expected to outweigh the costs.
- 22 Hence, IFRS 18 is recommended for the endorsement.

Next Steps

- 23 At the 4 November 2024 meeting, EFRAG FR TEG members recommended the consultation period until end of March. The EFRAG Secretariat proposes to use 26 March 2025 (about 125 days) to allow sufficient time to constituents to familiarise themselves with the requirements of IFRS 18 and with the DEA and provide their feedback and to prepare the FEA for the upcoming FR TEG meeting.
- 24 This timeline is in accordance with the endorsement plan previously approved by EFRAG FRB aiming at the publication of the final endorsement advice in Q2 2025.

Questions for EFRAG FRB

- 25 Do you have any comments or questions to Appendix 1, 2 and 3 of the DEA?
- 26 Do you have any comments to the Cover Letter of the DEA?
- 27 Do you agree with the recommended consultation period?
- 28 Do you approve the DEA and its publication?

Agenda Papers

- 29 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 07-02 – IFRS 18 - DEA - Letter to the EC; and
 - (b) Agenda paper 07-03 – IFRS 18 - DEA - Invitation to comment.