

IASB&EFRAG@AFRAC

EFRAG Work Plan & Non-Financial Reporting

Jean-Paul Gauzes, EFRAG Board President, Chairman European Lab SG
Chiara Del Prete, EFRAG TEG Chairwoman
Saskia Slomp, EFRAG CEO

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OVERVIEW

ABOUT EFRAG

EFRAG FINANCIAL REPORTING WORK PLAN

SUSTAINABLE FINANCE AND NON-FINANCIAL REPORTING



DISCLAIMER

The views expressed in this presentation are those of the presenters, except where indicated otherwise. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.



ABOUT EFRAG





HISTORY and INTRODUCTION

WHO IS EFRAG



EFRAG – European Financial Reporting Advisory Group

Private not-for-profit established in 2001

Encouraged by the EC to serve the public interest

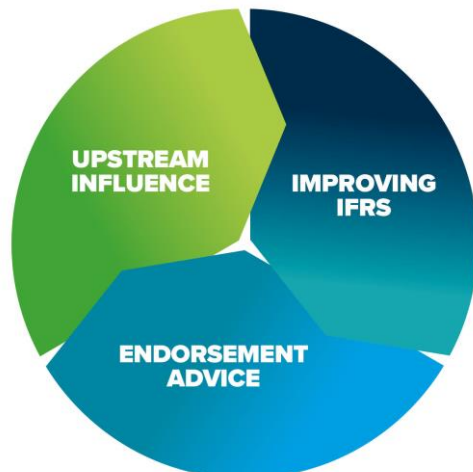
Its member organisations have an interest in the development of IFRS Standards and how they contribute to the efficiency of capital markets.

Since 2010 over 50% funded by the European Union

2018 European Corporate Reporting Lab@EFRAG following EC Action Plan: *Financing Sustainable growth*

WHO IS EFRAG

EFRAG's core activities



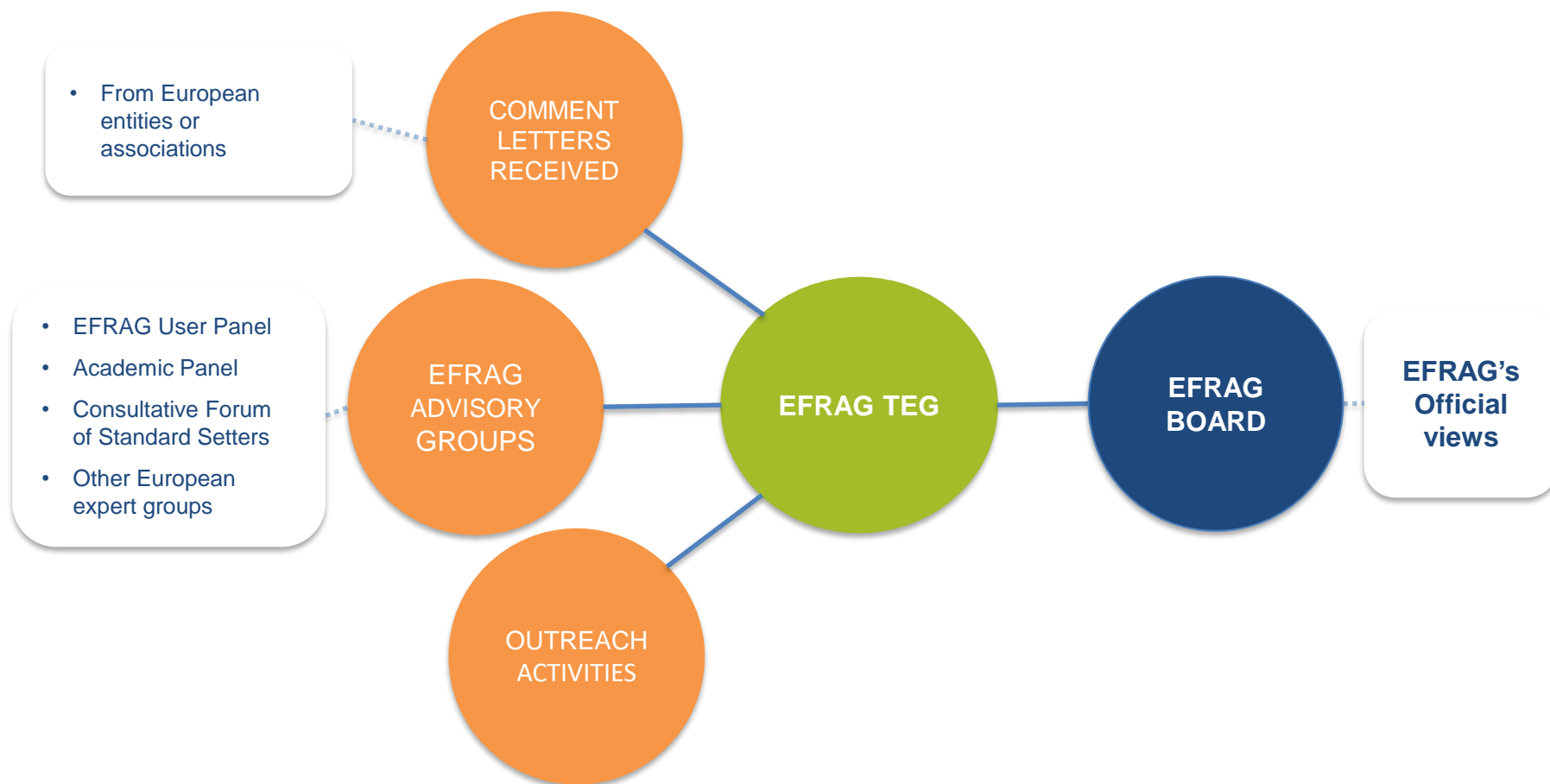
EFRAG's mission statement

- To serve the European public interest by developing and promoting European views in the field of financial reporting and ensuring these views are properly considered by the IASB and related international debates
- To provide advice to the EC on whether new IFRS Standards meet the criteria in the IAS Regulation for endorsement for use in the EU
- To stimulate innovation in corporate reporting through the European Lab's work in identifying and sharing good reporting practices

EU non-financial reporting mandates to EFRAG

DEVELOPING EUROPEAN VIEWS

EFRAG'S PROCESS TO REACH A POSITION





EFRAG FINANCIAL REPORTING WORK PLAN

2020 AT A GLANCE (1/2)

Responses to IASB publications, including

IASB PROJECT	STEP	IMPLICATIONS
IBOR 1	Endorsed	Rapid responses by both EFRAG and EC.
General Presentation and Disclosure (PFS)	FCL	Extensive outreach, field tests and workshops
IFRS 16: Covid relief	Endorsed	Rapid response: Endorsed in October
IFRS 4	FEA	Very rapid response by EFRAG. Expected to be endorsed in time for year-end so that insurers can continue to use IAS 39.
IBOR 2	FEA	Quick response by EFRAG. Expected to be endorsed in time for year-end.
Business Combinations: Disclosures, Goodwill and Impairment	DCL	Extensive outreach and field test, deadline 30 November
IFRS 17	DEA	FCL in 2020, DEA important milestone in due process, deadline 29 January 2021

2020 AT A GLANCE (2/2)

Responses to IASB publications, including

Also completed:

FCLs on IFRS Foundation Due Process Handbook, Amendments to IFRS 17, IAS 12

DEAs for Amendments to IFRS 3, IAS 16, IAS 37 and Annual improvements (2018-2020)

DCLs including preparatory work on IASB EF *General Presentation and Disclosure* and IASB DP *Business Combinations Disclosure and Goodwill Impairment*

Focus - DEA IFRS 17

CONTENTS OF DEA IN CONSULTATION

- Consensus that all the requirements (apart annual cohorts applied to intergenerationally-mutualised and cash flow matched contracts) meet the criteria for endorsement. EFRAG Board split on annual cohorts and position of the two groups of members is illustrated in the DEA.

IFRS 17: ASPECTS REQUESTED BY EC or EUROPEAN PARLIAMENT

- Benefits compared to existing situation including consistent and understandable reporting
- Clarity of scope of VFA to provide understandable information
- Pattern of release of CSM (contractual service margin)
- Specificities of the insurance sector
- Potential effects on financial stability, competitiveness and insurance market
- Cost-benefit analysis
- Views from EBA and ESMA
- Presentation of general insurance contracts
- Interaction between IFRS 17 and Solvency II
- Impact on long-term investment in the EU, procyclicality and volatility
- Application of IFRS 15 as well as transitional requirements
- Impact on reinsurance
- Annual cohort requirement

- **DEA issued on 30 September**
- **Open for comments until 28 January 2021**

Focus – FAST TRACK ENDORSEMENT



- Pre-consultation document issued for IBOR 1 (preparatory DEA on the basis of the IASB technical decisions)
- Public outreach meetings the closing day of the consultation on DEA IBOR Phase 2 and IFRS 16 Amendm.
- Approval of the DEA before the issuance of the Amendments, subject to non substantial wording changes

General Presentation and Disclosure (PFS)

- **Draft Comment Letter** published February 2020 with extended deadline (covid) 30 September
- **Outreaches:** webinars with users, preparers and National Standard Setters of different countries; accounting committees of various organisations
- **Field test workshops** with preparers
- 36 Comment letters from constituents including **AFRAC**
- **Final Comment Letter** published 2 November

FOCUS ON PFS EFRAG CONSULTATION AND JOINT FIELD-TEST

Outreach with European stakeholders (users, preparers and NSS)

- EFRAG, FSR – Danish Auditors, the Confederation of Danish Industry (DI) and the IASB (14 May 2020)
- *Users joint outreach event* hosted by EFRAG, EFFAS, BVFA/ABAF and the IASB 19 May 2020 and 26 May 2020
- EFRAG, NASB, the NFF and the IASB 17 June 2020
- *Germany NSS* 7 September and 11 September 2020
- *Joint EFRAG/IASB/ Dutch Accounting Standards Board (DASB)* on 16 September 2020

Field test with preparers with European National Standard Setters and the IASB:

- Workshop on 7 July with preparers of financial statements
- Workshop on 7 July with preparers of financial statements
- Field-test workshop on 24 August with preparers of financial statements
- *Preparers roundtable on Primary Financial Statements* (webinar): Online joint outreach event hosted by EFRAG, BusinessEurope and the IASB (1 September 2020). For more details, please click [here](#).

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Almost 1.200 registrants in total for the public webinar outreach events

General Presentation and Disclosure (PFS) –

EFRAG Main Comments: Operating Investing and Financing

- Subtotals: labelling not aligned with cash flow statements
- Guidance needed on “entity’s main business activity”
- “Free accounting policy choice” 51 (b) may result in in loss of relevant information for users
- Consider the presentation of operating P&L profit or loss when one or more line items between categories are immaterial
- Consideration how to be applied in specific circumstances including interaction IFRS 17 and IFRS 9
- How the proposals would have to be applied in the separate financial statements
- Classification of foreign exchange differences and of fair value gains and losses on derivatives and hedging instruments

General Presentation and Disclosure (PFS) –

EFRAG Main Comments: Integral – non-integral associates and joint ventures and by nature/ function

- Presentation of the results of **all** associates and joint ventures below the subtotal ‘operating profit or loss’ and require split between ‘integral’ and ‘non-integral’ in the notes to the financial statements (option to present split on the face always possible)
- Clarify the definition in connection with the concept of main business activities, widen the scope, additional indicators and more examples to reduce the level of judgement
- Support presentation of expenses using either by-function or by-nature method, but cost/benefits to be reconsidered: e.g. providing a partial presentation by nature of some operational expenses
- Clarify what a mixed presentation basis is and when such mixed presentation is allowed

General Presentation and Disclosure (PFS) –

EFRAG Main Comments: unusual income and expenses and MPMs

- Support the disclosure of unusual in a single note, however current definition too narrow (e.g. restructuring), more guidance needed
- Supports guidance on MPMs, however **scope should**
 - include indicators of financial position or ratios,
 - include MPMs presented in the notes to the financial statements
 - be limited to communications released together with the annual and/or interim reports,
 - exclude measures required by the regulators.
- Cost/benefit concerns in relation to split of tax and NCI components
- Better articulation needed of link between MPMs and IFRS 8

Business Combinations: Disclosures, Goodwill and Impairment

- **Draft Comment Letter** published May 2020 with deadline 30 November
- **Outreaches:** webinars with users, preparers and National Standard Setters of different countries; accounting committees of various organisations.
 - 9 November: Norwegian focus (with NASB)
 - 12 November: User focus (with EFFAS and ABAF/BVFA)
 - 20 November: with German standard setter, ASCG: *in German*
 - 24 November: Portuguese focus (with CNC, OROC and OCC)
 - 25 November: with Italian standard setter OIC, *in Italian*
- **Field tests and survey** with preparers with active M&A agendas and significant amounts of goodwill (**deadline 13 November**)

Business Combinations: Disclosures, Goodwill and Impairment – EFRAG Preliminary views

- Concerns about level of granularity at which the CODM reviews the information
- No view yet/consulting: is it practical and appropriate to disclose the proposed information in the financial statements instead of as part of the management commentary as the information is based on management expectations and refers to non-GAAP indicators
- Concern about disconnect with impairment of goodwill: new disclosure could offer an anchor point for the level at which goodwill should be allocated to cash-generating units
- Concerns about Availability, due to the integration or divestments that may occur, and commercial sensitiveness but also possible legal consequences and impact on competition
- Will benefits of providing the disclosures on synergies outweigh the costs? Will the information that will eventually be reported be reliable (auditability)?.

Business Combinations: Disclosures, Goodwill and Impairment – EFRAG Preliminary views

- No view yet/consulting: should amortisation of goodwill should be reintroduced, in combination with an impairment requirement?
- EFRAG CFSS members expressed mixed views on reintroduction of amortisation, both between jurisdictions and between stakeholders of the same jurisdiction
- Areas for possible improvements:
 - reconsidering in practice guidance for allocation of GW to CGUs to push allocation at a lower than segment level, more discipline for reallocation following a reorganization and disposal
 - possible additional disclosure to mitigate management over-optimism (examples provided in EFRAG DCL)
- Reservations about indicator-only approach and agreement with Value in Use simplifications proposed
- Reservations about including in goodwill also some intangibles currently separated (reconsider IAS 38 and comparability internally generated intangibles

2020 AT A GLANCE

EFRAG research agenda

EFRAG RESEARCH PROJECTS

Feedback statement on EFRAG Discussion Paper Accounting for Pension Plans with an Asset-return Promise (April)

Advice to EC on Alternative accounting treatments of long-term investments in equity (January)

Better Information on Intangibles: Literature review (February): DP H1 2021

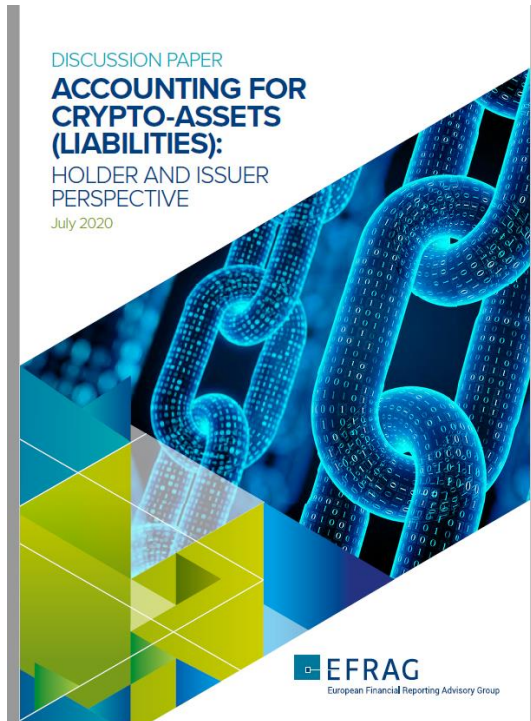
DP: Accounting for Crypto – assets (liabilities) – holder and issuer perspective (July) 12 month comment period

Variable and contingent consideration

EFRAG public consultation research agenda (combined with IASB agenda consultation?)

FOCUS ON CRYPTO

Discussion Paper (open for stakeholder comments until 31 July 2021)



- DP open for 12-month consultation period taking account of Covid-19 circumstances
- Early comments highly welcome
- Outreaches to occur from Q4 2020 onwards

- Support to identify expert groups and in general for the outreach events would be highly welcome!

FOCUS ON EFRAG RESEARCH PROJECT ON INTANGIBLES

- 2019: preparatory work and interviews with experts (preparers, users, valuers) to define the research issues
- Feb. 2020: EFRAG issued the Academic Literature on Intangibles by a group of academics
- Sessions in TEG to define scope of a discussion paper
- Kick-off of the Advisory Panel on Intangibles, end of March 2020. The EFRAG API will play an important role in providing accounting and industry expertise to EFRAG TEG, on specific aspects of intangibles. The EFRAG API aims at facilitating dialogue, identifying issues on the current guidance and helping practical solutions to emerge. It will provide views on what information investors need (but cannot find in the financial statements) on how an entity creates, maintains, expands and/or preserves value and what information can be prepared. Members include valuers, investors, users, preparers. IASB, FRC, EFASS, EC and CFA institute are observers.
- Approaching now the conclusion of a first exploratory phase with the members of the API, TEG will review progresses in November.
- Discussion Paper expected in 1H21

ONGOING IASB PROJECTS

EFRAG is collecting evidence and prepare ESAs/planning outreaches

IASB PROJECT	STEP
Rate-regulated activities	Towards DCL
BCUCC	Towards DCL
FICE	Monitoring
Dynamic Risk Management	Field testing core model Q4 2020 and Q1 2021
PIR IFRS 10, 11 and 12	Contribution to RFI
Management Commentary	Towards DCL
Agenda Consultation	Towards DCL
Several other projects on IASB work plan and IFRIC draft interpretations	



SUSTAINABLE FINANCE and NON-FINANCIAL REPORTING

SUSTAINABLE FINANCE



EC INITIATIVES

- 2018 High-Level Expert Group report *Financing a Sustainable European Economy*
- March 2018 EC Action Plan *Financing Sustainable Growth*, section, notably Disclosure and Accounting: Action Points
 - EFRAG to establish a **European Corporate Reporting Lab** (established in Q3 2018)
 - June 2019 NFRD supplement on climate related reporting
 - H1 2020 EU Consultation on the renewed sustainable finance strategy
 - October 2018 EC 2018 Fitness Check – summary report
- The European Green Deal December 2019 including need for increased disclosure on climate and environmental data => review NFRD



SUSTAINABLE FINANCE

EC INITIATIVES



- Revision **NFRD**:
 - Inception Impact Assessment: February 2020
 - Public Consultation: summary report July 2020
 - EC proposal aimed at Q1 2021
 - EVP mandates to EFRAG on preparatory work for the elaboration of possible EU non-financial reporting standards and on governance and finance issues: June 2020
- **EC Platform Sustainable Finance**: EFRAG observer (also in Subgroup 5: Data and Usability)

EUROPEAN LAB

STIMULATE INNOVATION IN THE FIELD OF CORPORATE REPORTING IN EUROPE BY IDENTIFYING AND SHARING GOOD PRACTICES

- Established by EFRAG at the request of the EC in its March 2018 Action Plan: *Financing Sustainable growth*
- Facilitates dialogue between reporting companies, users and other relevant stakeholders
- Steering Group is responsible for European Lab **governance**, **agenda selection** (projects), **appointment of project task forces** (PTFs) and **oversight of projects**
- European Lab deliverables have no authoritative or normative status
- Different from the EU Non-Financial Reporting Directive and related guidelines
- PTFs are responsible for the project deliverables including the contents of the project reports

EUROPEAN LAB

- First project on **Climate-related reporting**: February 2019 – January 2020
- Public consultation on the **Future European Lab Agenda**: H2 2020
- Second project on **Reporting of non-financial risks and opportunities and linkage to the business model**: started June 2020
- Third project, EC mandate to EFRAG on **Preparatory Work for the elaboration of possible EU non-financial reporting standards**
- **Ad personam mandate** to EFRAG Board President, Chair European Lab Steering Group and former MEP, Jean-Paul Gauzes

CLIMATE-RELATED REPORTING PROJECT

SUMMARY BROCHURE



HOW TO IMPROVE CLIMATE-RELATED REPORTING

A SUMMARY OF GOOD PRACTICES FROM EUROPE AND BEYOND

Report at a glance

- Highlights good reporting practices as well as potential ways of improving the current state of play
- Practical and action-oriented
- The result of collaboration between European preparers, users and other stakeholders within the Project Task Force on Climate-related Reporting
- Comprises a main report and two supplement documents on general climate disclosures and scenario analysis reporting
- Reflects review of 149 companies, with 58 examples extracted from 30 companies
- Articulates and attempts to show where there is need to reconcile preparers' and users' perspectives on climate-related reporting
- Invites readers to navigate through the content in an interactive way and to zoom in on the examples of good reporting practices

149 COMPANIES REVIEWED

23 PROJECT TASK FORCE MEMBERS

48 PARTICIPANTS IN DIALOGUE WITH STAKEHOLDERS

13 NATIONALITIES IN THE PROJECT TASK FORCE

12 MONTHS EFFORT

Outcome

58 GOOD REPORTING PRACTICE EXAMPLES

30 COMPANIES HIGHLIGHTED

Main report

Supplement 1: climate-related reporting practices

Supplement 2: scenario analysis practices



CLIMATE-RELATED REPORTING PROJECT

DELIVERABLES



FIRST EUROPEAN LAB PROJECT



CLIMATE-RELATED REPORTING

- Review of current state of climate-related reporting while considering
 - Task Force on Climate-related Financial Disclosures (TCFD) recommendations with a focus on four thematic areas (Governance, Strategy, Risk management, Metrics and targets)
 - Climate-related reporting elements of the NFRD and the related non-binding guidelines Analysis of current and potential use of climate-related information by investors and other users and identifying and discussing examples including the indication of possible improvements
- Two areas of focus in the review of climate-related reporting, namely:
 - A general review of climate-related disclosures
 - An in-depth review of scenario analysis- an innovative and challenging aspect of climate reporting
- Electronic navigable report published on 6 February 2020

SECOND EUROPEAN LAB PROJECT



REPORTING OF NON-FINANCIAL RISKS AND OPPORTUNITIES AND LINKAGE TO THE BUSINESS MODEL

- Investors and other stakeholders need to understand:
 - How risks and opportunities that arise from the external operating environment impact companies
 - How the companies' business and operations may have environmental or social impacts
 - How companies are mitigating these risks
- Consider the needs and expectations of stakeholders, the extent to which they are addressed by current reporting practices, and the challenges faced by companies in providing the necessary information
- Aim of the project: Identify and sharing good reporting practices of companies that have managed to connect the material information of their business model to related non-financial risks and opportunities
- Project Task Force established in June 2020, 12 month delivery

Non-financial reporting mandates



REQUEST FOR TECHNICAL ADVICE – PREPARATORY WORK FOR THE ELABORATION OF POSSIBLE EU NON-FINANCIAL REPORTING STANDARDS

- EFRAG mandated on 25 June 2020 to provide recommendations to the EC on possible EU non-financial reporting standards
- Progress report by the end of October and the final report accompanied by a tentative work programme by the end of January 2021
- 4 September 2020 the composition of the Project Task Force on Preparatory work for the Elaboration of possible EU non-financial reporting standards announced, chaired by Patrick de Cambourg
- Decision about European Non-financial reporting standards will be taken in the legislative process
- Building on existing initiatives, including international but European specificities

Non-financial reporting mandates



REQUEST FOR TECHNICAL ADVICE – PREPARATORY WORK FOR THE ELABORATION OF POSSIBLE EU NON-FINANCIAL REPORTING STANDARDS

PTF-NFRS: Approved workplan

Phase 1: Assessment (till end October with some overlap):

A1 - Mapping all current, developing and expected European initiatives having non-financial requirements and/or implications

A2 - Mapping and assessing international initiatives and identifying relevant elements in close cooperation with these organisations

A3 – Core structural elements for a conceptual framework for non-financial information

A4 - Interconnection between financial and non-financial information

A5 - Focus on non-financial information for financial institutions

A6 - Current non-financial information reporting practices and formats

Phase 2: Proposal (November to 31 December): Design of possible scenarios develop detailed recommendations, and initiation of formal outreaches.

Phase 3: Outreach and Conclusion (January 2021): Finalise recommendations, integrate feedback and issue final report 31 January

Non-financial reporting mandates

AD PERSONAM MANDATE TO EFRAG BOARD PRESIDENT,
CHAIR EUROPEAN LAB STEERING GROUP AND FORMER MEP
, JEAN-PAUL GAUZES



- EC invited EFRAG Board President to consider possible need for changes to governance and financing of EFRAG if it were to be entrusted with the development of European non-financial reporting standards in a revised NFRD (subject to preparatory work and subsequent legislative decisions)
- Progress report by 30 October; Recommendations by 31 January 2021
- Public invitation issued on 1 October to seek contributions of all interested stakeholders (deadline 30 October): > 35 letters received, including AFRAC
 - Governance- structure and due process
 - Governance- cooperation with standard setters and other initiatives
 - How to structure the funding of the NFI pillar
- Contributions will be used to develop proposals that will be subject to further public consultation



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THANK YOU

EFRAG
Aisbl - ivzw
35 Square de Meeüs
B-1000 Brussel
Tel. +32 (0)2 207 93 00
www.efrag.org

