

EFRAG – Financial Reporting Pillar

AFRAC meeting

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OVERVIEW

- FINANCIAL REPORTING PILLAR
- PRIMARY FINANCIAL STATEMENTS
- SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY
- FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF EQUITY
- BUSINESS COMBINATIONS – DISCLOSURES, GOODWILL AND IMPAIRMENT
- RECENT FEEDBACK TO THE IASB THAT WILL BE CLOSELY FOLLOWED UP
- CASH FLOW REPORTING
- CONNECTIVITY



EFRAG's tasks in the Financial Reporting Pillar

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Europe adopted IFRS Standards in 2005

- Regulation no. 1606/2002 on the application of IAS/IFRS for publicly-listed companies – requires consolidated financial accounts being prepared in accordance with IAS/IFRS.
- The regulation allows Member States to allow or require non-listed companies to report using IFRS Standards and the use of IFRS Standards in the individual accounts of listed companies.
- In order to become binding law in the EU, IAS/IFRS must be ‘endorsed’ in Europe.

Financial Reporting Pillar EFRAG`s tasks:

- Endorsement Advice – EC requests EFRAG for advice, EFRAG assesses the endorsement criteria after public consultation
- Improving IFRS Standards – Commenting on IASB Projects after Public Consultation
- Upstream Influence to the IASB – EFRAG Research Agenda topics (e.g. Cash Flow Reporting or Connectivity)

EFRAG`s work plan

IASB related projects

Standards/Amendments for consideration of endorsement

- Lack of Exchangeability

Projects in the redeliberation phase – EFRAG prepares selected outreach - next step being the issuance of a standard and for EFRAG the endorsement

- Primary Financial Statements
- Subsidiaries without Public Accountability: Disclosures
- Rate Regulated Activities
- Amendments to the Classification and Measurement of Financial Instruments
- Annual Improvements

IASB projects in deliberation/redeliberation that will result in a DP or ED

- Financial Instruments with Characteristics of Equity
- Business Combinations: Disclosures, Goodwill and Impairment
- Power Purchase Agreements
- Climate-related and Other Uncertainties in the FS
- Follow up of PIR IFRS 9 Impairment and PIR IFRS 15
- Dynamic Risk Management
- BCUCC
- Equity method
- Provisions
- Management Commentary
- The IASB plans several PIR - EFRAG prepares the RFI Feedback for
 - IFRS 16
 - IFRS 9 Hedge Accounting

Proactive projects

- Connectivity between FR and SR
- Cash Flow Reporting
- Variable Consideration
- Intangibles

Reserve list projects

- Pollutant Pricing Mechanism
- Operating Segments.



PRIMARY FINANCIAL STATEMENTS

Primary Financial Statements – EFRAG Workplan



- Sweep issues will be discussed at EFRAG to provide feedback to the IASB on a timely basis – EFRAG FR TEG Meeting Nov and Dec 2023.
- Impact assessment as part of the assessment of the endorsement criteria.
- EFRAG will work on the endorsement advice after receiving the request from the EC by assessing the endorsement criteria.
 - Public consultation expected end of 2024/beginning of 2025.
 - Submission of the Endorsement Advice to the EC expected H2 2025.

Primary Financial Statements – Feedback

- EFRAG submitted a [CL on the ED](#) in 2020 to the IASB and participated in targeted outreach in 2022 (see [Summary Report and Recommendations](#) published).
- EFRAG expressed general support for IASB’s redeliberations and direction of the project – many of the issues raised in the roundtables discussions in 2022 have been addressed by the IASB.
- Cost mitigating considerations were welcomed/accepted.
- Most controversial discussed decision: The IASB decided to classify in the statement of profit or loss income and expenses from investments in associates and joint ventures accounted for using the equity method in the investing category and not allow a presentation as part of the operating profit or loss.
- It is a long awaited IFRS Standard for the users, still having an effective date of 2027 will allow preparers to properly implement the new IFRS Standard and EFRAG to perform its work.
- EFRAG welcomes the IASB efforts to provide illustrative examples and educational material.



SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY

Subsidiaries without Public Accountability – EFRAG Workplan



- Sweep issues will be discussed at EFRAG to provide feedback to the IASB on a timely basis.
- Update of EFRAG’s Briefings:
 - (a) [Subsidiaries without Public Accountability: Disclosures. Who would be able to apply it in the EU?](#) focused on the scope of the IASB's project from an EU perspective; and
 - (b) [EFRAG Secretariat study on compatibility of the EU Accounting Directive with the IASB's Exposure Draft](#) included a two-step comparison of disclosure requirements in the ED and the EU Accounting Directive.
- EFRAG will work on the endorsement advice after receiving the request from the EC by assessing the endorsement criteria.
 - Public consultation expected end of 2024/beginning of 2025.
 - Submission of the Endorsement Advice to the EC expected H2 2025.

Subsidiaries without Public Accountability – Feedback

- EFRAG submitted a [CL on the ED](#) in 2022 to the IASB.
- EFRAG expressed general support for IASB’s redeliberations and direction of the project.
- It was considered that the upcoming Standard will simplify and reduce cost of financial reporting for subsidiaries and parent entities.
- It was noted that the IFRS Accounting Standard would provide benefits (reporting reliefs) even in jurisdictions that currently do not allow or require IFRS in annual reports.
- Questions were raised on whether the IASB’s recent improvements on the definition of public accountability will address the concerns from the insurance industry.
- EFRAG welcomes the IASB efforts to provide educational material to illustrate the (partly complex) approach.



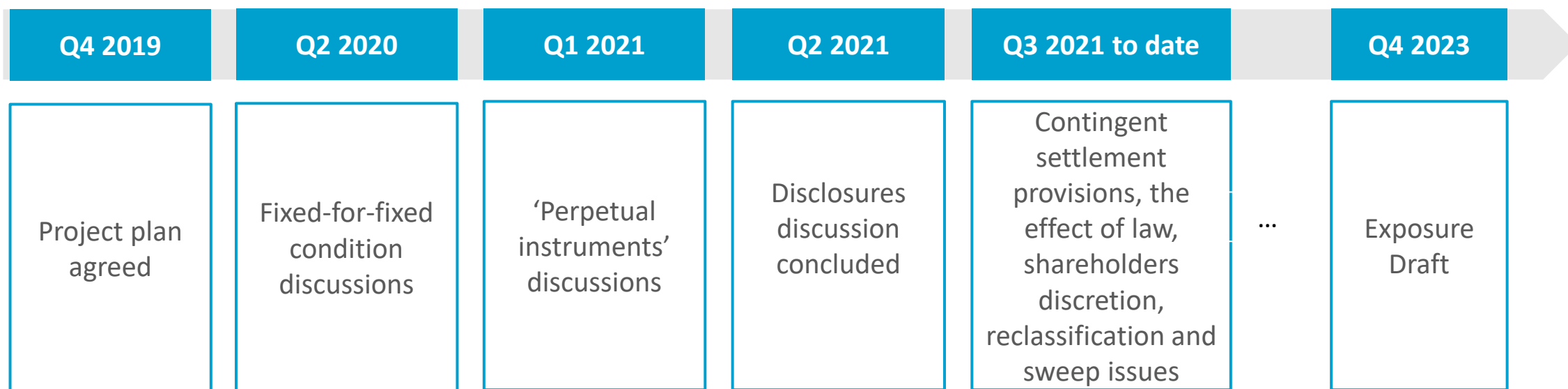
FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF EQUITY (FICE)

FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF EQUITY

OBJECTIVE OF THE PROJECT

- To address **known practice issues** applying IAS 32 without fundamentally rewriting IAS 32.
- To improve information provided in financial statements about financial instruments issued, including improved disclosures under IFRS 7 on financial assets, financial liabilities and equity.

Key issues discussed and timeline (more information in the Appendix)



FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF EQUITY

NEXT STEPS

- An ED is expected in November 2023. Then, EFRAG will issue its DCL and start outreach activities.

	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24
Work on DCL	FR TEG / FRB approval	DCL issued			
Outreach events	Coordination	Coordination/ Events	Events	Events	
Field Testing			Testing	Testing	
Work on FCL					FCL issued



BUSINESS COMBINATIONS – DISCLOSURES, GOODWILL AND IMPAIRMENT

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- After considering the feedback on its DP, the IASB decided to publish an Exposure Draft containing proposed amendments to:
 - IFRS 3 Business Combinations—in particular, to improve the information companies disclose about the performance of business combinations; and
 - IAS 36 Impairment of Assets—in particular, amendments to the impairment test of cash-generating units containing goodwill.
- EFRAG closely monitors the project and prepares the feedback on the ED.
- EFRAG has launched a [survey](#) which aims to collect feedback from preparers on the tentative decisions. EFRAG is seeking preparers' views more specifically on the proposed disclosure requirements for business combinations under IFRS 3 Business Combinations.



RECENT FEEDBACK TO THE
IASB THAT WILL BE CLOSELY
FOLLOWED UP

RECENT CL SUBMITTED TO THE IASB – FOLLOW UP

EFRAG submitted CL to the IASB and will closely follow up the developments:

- [Amendments to the Classification and Measurement of Financial Instruments](#)
- [PIR IFRS 9 Financial Instruments – Impairment](#)
- [PIR IFRS 15 Revenue](#)



CASH FLOW REPORTING

About the project

- Added to EFRAG's project proactive research agenda as a result of EFRAG's consultation in relation to the IASB's Third Agenda Consultation. Will support the IASB's project.

Objectives of EFRAG's research project

- Identifying objectives of the statement of cash flows and identifying how the statement of cash flows is used.
- Identifying issues with how the statements of cash flows are currently prepared under the requirements in IAS 7.
- Discuss whether the IASB should address the issues identified by means of targeted improvements or a comprehensive revision of IAS 7.

Basis for writing the Discussion Paper

Collection of different views on objectives, uses of, and issues with cash flow reporting:

- EFRAG collected preliminary views in its meetings on the objectives, and identifying how the statement of cash flows is used. In addition several issues with how the statements of cash flows are currently prepared under the requirements in IAS 7 were identified.
- In November and December Roundtables Discussions will take place with different stakeholders:
 - Financial Institutions and its auditors - 17 November, from 13.30 to 16.00 (CET) [News item](#).
 - Corporates and its auditors - 27 November and 4 December 09.30 to 12.00 (CET) [News item](#).
 - Users and Academics - 1 December from 12.00 to 15.00 (CET) [News item](#).
- Potential interviews with other stakeholders.

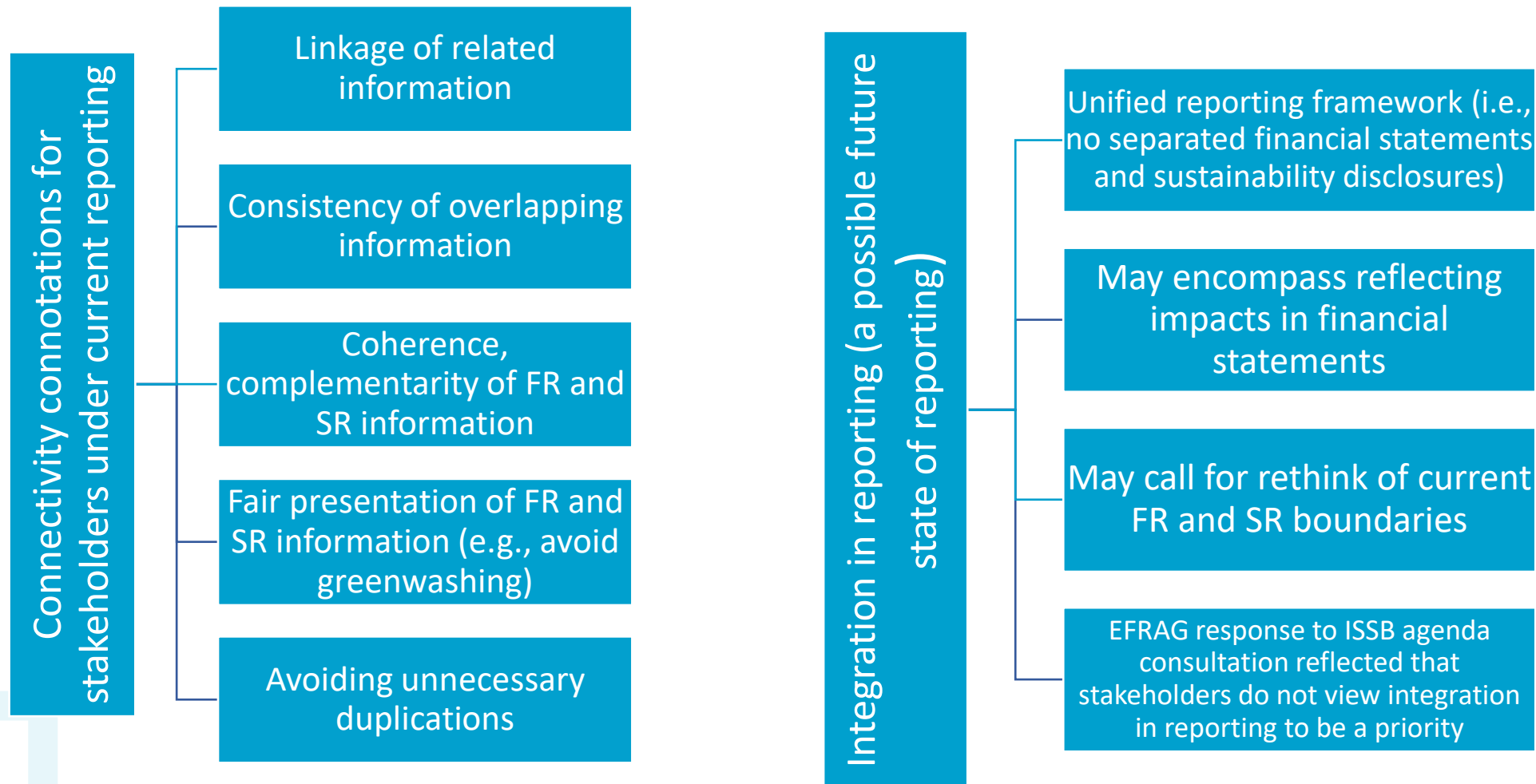
Literature review

Discussion of the feedback received and concluding on the recommendation whether the IASB could **consider the issues by targeted amendments, or a comprehensive review** of IAS 7 would be necessary to deal with the issues in a satisfactory manner.

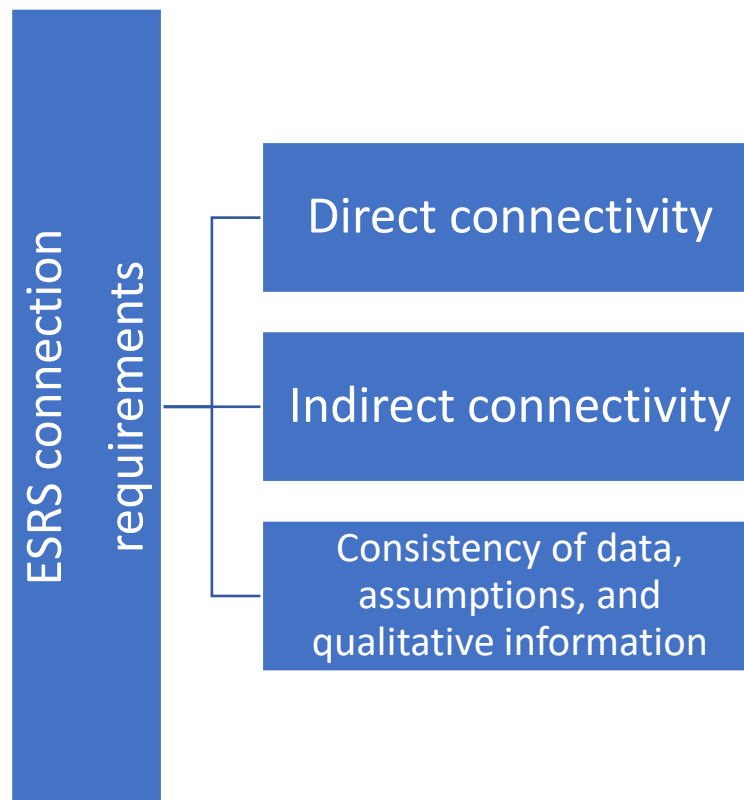


CONNECTIVITY BETWEEN FINANCIAL REPORTING AND SUSTAINABILITY REPORTING

Distinction between connectivity vs Integration in reporting

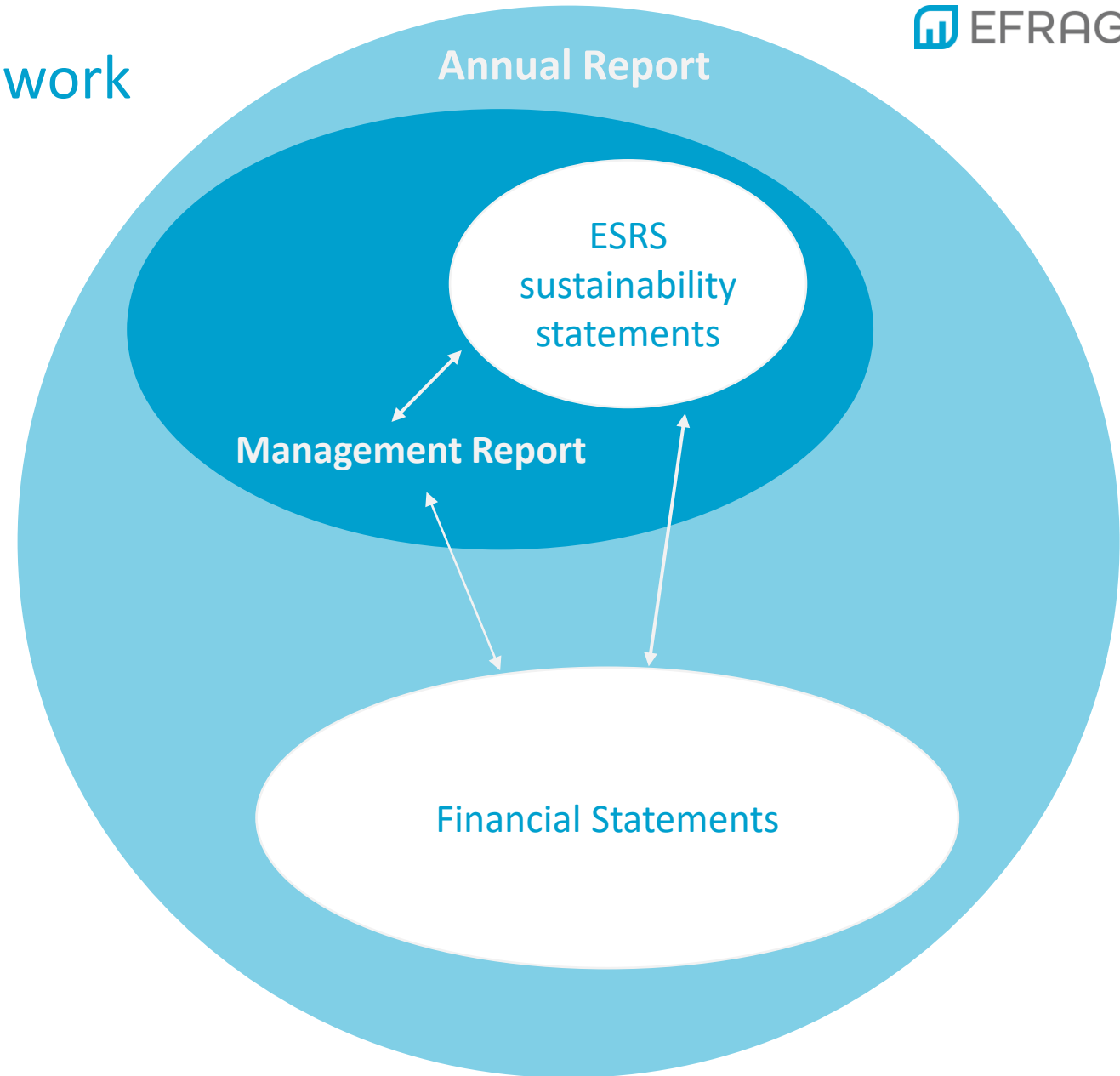


ESRS connection requirements



What is being connected? EU Framework

- Mandatory application of ESRS and location of sustainability information in a dedicated section of the Management Report
- ESRS sustainability statements under ‘double materiality’ lens (impact materiality + financial materiality)
- Entities in scope: large undertakings (IFRS and national GAAP applicants)



What is being connected? IFRS reporting architecture



Source: Slides used at the April 2023 IFRS Advisory Council Meeting

How? EFRAG research project approach

Phase 1: Operationalisation of connectivity under current conceptual FR and SR boundaries
(Systematic illustration of the possible connections between FR and SR)

Phase 2: Conceptualisation not restricted by current FR and SR boundaries

Conceptual scene setting

- Set common definitions
- Identify differences between FR and SR (what cannot be connected)
- Identify user needs
- Identify points of intersection in respective SR and FR requirements (what can be connected)

Practical application

- Real world and mock-up examples

Explore integration of reporting

Align to work of IASB-ISSB

Scope to be defined at a later date

Scope of SR: ESRS and ISSB SR

Scope of FR: IFRS requirements

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