



# EFRAG USER UPDATE

July 2019

This is the first EFRAG User Update developed to inform users on financial reporting and broader corporate reporting topics of interest. The EFRAG User Update will be published on a quarterly basis to provide users of financial statements with information about the publications, discussions held and decisions taken since the previous update.

## LATEST DEVELOPMENTS AT EFRAG

In 2019, EFRAG actively served the European public interest by developing and promoting European views, including those from users of financial statements, in the field of financial and corporate reporting.

Highlights included EFRAG's continued work on IFRS 17 *Insurance Contracts*, notably its draft comment letter on the IASB's proposals on amendments to IFRS 17 *Insurance Contracts*; EFRAG's ongoing work on the IASB's research project on *Goodwill and Impairment*, EFRAG's discussions on the IASB's project *Primary Financial Statements*; and EFRAG's work on the European Commission request relating to the exploration of potential alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments.

EFRAG has also recently released a short video detailing its mission and activities. You can watch it [here](#).

We issued a public consultation on the future agenda of the European Lab for comment by 30 September and will hold a roundtable event on 10 September.

## MAIN FINANCIAL REPORTING PROJECTS

### Insurance

#### Introduction to IFRS 17 *Insurance Contracts*

In May 2017 the IASB issued IFRS 17 *Insurance Contracts* to address the shortcomings of IFRS 4 *Insurance Contracts* (IFRS 4 allowed insurers to use local GAAP with only limited modifications). Since IFRS 17 was issued, the IASB has been supporting insurers and others with the transition to IFRS 17, including through establishing a Transition Resource Group and providing education materials.



### **What has the IASB been doing lately?**

During the implementation period, the IASB has been making efforts to understand the implementation challenges identified by insurers and other stakeholders. To address the concerns raised by the insurance companies and other stakeholders during the implementation period of IFRS 17, in June 2019 the IASB decided to publish an Exposure Draft ('ED') proposing amendments to IFRS 17 (including a one year deferral) with a comment period of 90 days ending 25 September.

### **What has EFRAG been doing lately?**

EFRAG's case study and other activities in 2018 identified several concerns and the EFRAG Board decided to write to the IASB in September 2018 to highlight some aspects of IFRS 17 that, in EFRAG's view, merit further consideration. Several but not all were addressed in the IASB ED.

On 15 July 2019 EFRAG published its draft comment letter in response to the IASB's ED and is now seeking constituents' views on EFRAG's initial position (by 2 September 2019). In its letter, EFRAG expresses its appreciation for the consideration of the topics identified in its letter sent to the IASB in September 2018 (where it identified a number of concerns with IFRS 17). In its draft comment letter, EFRAG highlighted the following issues:

- EFRAG considers that the annual cohort requirement leads to unnecessary cost in some fact patterns, in particular for contracts with cash flows that affect or are affected by cash flows to policyholders of other contracts. EFRAG therefore believes that it is worth re-considering whether in certain cases the annual cohorts requirements are justified for such contracts;
- EFRAG remains concerned about implementation challenges faced by preparers when applying the modified retrospective approach and encourages the IASB to confirm that the use of estimates is allowed;
- EFRAG is of the view that the retrospective application of the risk mitigation option on transition is worthy of further attention; and
- EFRAG considers that the necessary amendments to IFRS 4 *Insurance Contracts* extending the optional deferral of IFRS 9 need to be published as soon as possible and, at the latest, before the end of June 2020 so as to enable timely endorsement within Europe before the current expiry date of 1 January 2021.

### **USER INVOLVEMENT SOUGHT**

**More recently, EFRAG invited users to express their views on this draft comment letter. EFRAG wishes to gather views from specialist users, who mainly follow insurance companies. The outreach will be conducted through interviews by webcast or phone and should take no longer than 30 minutes. These interviews can take place up to and including 3 September.**

To participate in the process, please either complete the online registration: [EFRAG's IFRS 17 User Outreach Registration](#) or contact Joachim Jacobs on (telephone: +32-(0)2 207 93 75,



email: [joachim.jacobs@efrag.org](mailto:joachim.jacobs@efrag.org)) by **16 August** in order for us to send you the relevant materials and arrange a suitable time.

## Goodwill and Impairment

### Objective of the Project

The Goodwill and Impairment project responds to concerns reported during the IASB's post-implementation review of IFRS 3 (PIR).

- Several users of financial statements informed that companies provide insufficient information about goodwill and impairment, and that any impairment of goodwill is not always recognised in a timely fashion
- Many users noted that existing disclosures do not sufficiently explain the reasons for undertaking the acquisition and its subsequent success
- On the other hand, preparers explained that the goodwill impairment test is a costly exercise to undertake on an annual basis, and asked the IASB to consider simplifying the test.

### IASB recent developments

During the course of the project, the IASB has considered a number of ways to address the 'too little too late' goodwill impairment issue reported by users. Some argue that one of the main causes of the delayed recognition of goodwill impairment is the 'shielding effect' created by internally generated goodwill and other factors. Another concern is that the impairment test does not directly measure the recoverable amount of the goodwill.

The IASB is currently exploring improvements to disclosures about business combinations and possible simplifications to the goodwill impairment test.

At its meeting in June 2019, the IASB took a number of tentative decisions, including whether to reintroduce goodwill amortisation. These decisions will be included in the Discussion Paper which is expected for publication towards the end of 2019.

### EFRAG recent developments

The EFRAG team provides regular updates to EFRAG TEG, EFRAG CFSS and the EFRAG User Panel on the IASB discussions and tentative decisions taken. Overall, the discussions have indicated support for the direction of the project. However, there are a number of recurring concerns around disclosures and how the solutions being developed will address the timeliness of the goodwill impairment.

- There are concerns from members of the EFRAG User Panel on whether the disclosures will achieve their intended purpose, given that the new disclosures, particularly around synergies and targeted objectives for the acquisition, involve sensitive information that preparers may be reluctant to provide. Furthermore,

removing the requirement to perform an annual goodwill impairment test seems to defeat the purpose to improve timely impairment information.

- Although, the views from users and others on reintroducing amortisation continue to be mixed, recent discussions have highlighted a shift towards support for goodwill amortisation particularly if the IASB were to remove the requirement to undertake an annual goodwill impairment test.

The EFRAG team will be seeking user views on the IASB developments as the project progresses towards a discussion paper.

## Primary Financial Statements

### Introduction to Primary Financial Statements

In its Primary Financial Statements project, the IASB is considering possible changes to the structure and content of the primary financial statements, particularly the statement of financial performance. This project is a part of the IASB's response to investors' demand for the IASB to undertake a project on performance reporting and is a part of the IASB's Better Communication in Financial Reporting initiative.

### What has the IASB been doing lately?

In its *Primary Financial Statements* project, the IASB has discussed the introduction of new requirements on:

- Presentation of new subtotals in the statement of profit or loss (e.g. operating profit) to improve comparability;
- Disclosures on Management Performance Measures (or Alternative Performance Measures) with the objective of introducing more clarity and consistency to management's views on its business;
- Introduction of new requirements to improve disaggregation (e.g. disclosures on unusual items); and
- Target improvements to the Statement of Cash Flows (e.g. elimination of presentation options)

In May 2019, the IASB decided to publish an Exposure Draft by the end of 2019.

### What has EFRAG been doing lately?

The EFRAG team has been providing updates to EFRAG working groups on several occasions, including updates to EFRAG User Panel members.

In particular, between April and July 2019 the EFRAG User Panel received a presentation from:

- Mazars on the current use of alternative performance measures (APMs) by European listed companies;



- ESMA on the European enforcement activities on non- financial information and APMs;
- IASB staff on the current status of the Primary Financial Statements project; and
- EFRAG team on illustrative examples that compared current presentation requirements with the IASB's presentation proposals.

EFRAG User Panel members welcomed the IASB's project and considered that the IASB was going in the right direction. However, members raised a number of specific concerns and provided additional inputs to the IASB's tentative decisions.

The EFRAG team is currently considering future outreach activities on this project, particularly with European users of financial statements.

## **EFRAG Research Project Equity Instruments - Research on Measurement**

As part of its Action Plan on Sustainable Finance, the European Commission ('EC') asked EFRAG to explore potential alternative accounting treatments to fair value measurement for long- term investment portfolios of equity and equity-type instruments.

On 6 May 2019, EFRAG launched its public consultation to gather constituents' views on whether alternative accounting treatments to those in IFRS 9 *Financial Instruments* are needed to portray the performance and risks of equity and equity-type instruments held in long-term investment business models. This consultation is now closed.

The team is currently analysing the feedback received from more than 60 surveys received.

## **EUROPEAN REPORTING LAB**

### **Introduction to European Reporting Lab**

The European Corporate Reporting Lab @ EFRAG (European Lab) was established by EFRAG, following the call by the European Commission in its March 2018 *Action Plan on Financing Sustainable Growth*. The European Lab serves the European public interest and its objective is to stimulate innovations in the field of corporate reporting in Europe by identifying and sharing good practices through facilitating dialogue between reporting companies, users and other relevant stakeholders and organisations; and documenting the content and outcomes of this dialogue in reports and other means, for making them available in the public domain.

### **Climate-related Reporting Project**

The first project of the European Lab is on climate-related reporting. The project is assessing the current state of play by European companies, and the current and potential use of climate-related information by investors and other users. The project focuses on two work streams namely: scenario analysis information; and a gap analysis of current reporting practices against EU Non-Financial Reporting Directive (NFRD) requirements, the supplemental non-



binding guidelines and the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. The project is being carried out by a Project Task Force (PTF) consisting of 23 practitioners with subject matter expertise and chaired by Michele Lacroix, who has a user professional background.

In July 2019, the PTF issued a call for stakeholders (users, preparers and other experts) to participate in a dialogue that will occur during September and October on climate disclosures including scenario analysis information.

## Agenda Consultation on Future Projects

The European Lab Steering Group (SG) is responsible for setting the agenda, governance and oversight of the European Lab. In July 2019, the European Lab SG issued a public consultation on future projects, with a deadline for responses of 30 September 2019. In addition, as part of engaging with stakeholders and getting input to the public consultation, an outreach event will be held on September 10 at the EFRAG offices in Brussels to allow stakeholders to share their views on the European Lab future agenda.

The European Lab SG will meet on 15 October 2019 to review the outcome of the public consultation and decide on future projects of the European Lab.

## USER INVOLVEMENT SOUGHT

One of the objectives of the European Lab whilst identifying and sharing good practices is to facilitate dialogue between users and preparers and develop content that is useful for both. During the summer, there will be various opportunities for users to contribute to the work of the European Lab including:

- **Sharing insights on the use of climate-related reporting information:** Users can participate in the climate-related reporting PTF's forthcoming dialogue with stakeholders. The objective of the dialogue that will occur in September and October is to obtain practical insights on good climate-related reporting practices to be reflected in a draft report to be issued in Q4 2019. Users can express their interest and availability to participate in a 45 minutes to one hour interview with the climate-related reporting PTF. The details of the call for participation in the dialogue with the PTF and how one can get involved can be [accessed through this link](#).
- **Sharing users' corporate reporting priority topics for consideration by the European Lab:** Users are invited to share their priority corporate reporting topics by responding to the public consultation on future agenda and also by participating in the September 10 outreach event. The details of the public consultation on the future agenda, which is open until 30 September, and how one can respond can be accessed [here](#). Information and registration for the September 10 outreach event can be accessed [here](#).



## OPEN CONSULTATIONS

Title and description	Closing date
EFRAG draft comment letter in response to the IASB's Exposure Draft ED/2019/2 Annual Improvements to IFRS Standards 2018-2020	5 August 2019
EFRAG draft comment letter on the IASB ED/2019/3 Reference to the Conceptual Framework (Proposed amendments to IFRS 3)	17 August 2019
EFRAG's draft comment letter on the IASB's ED/2019/4 Amendments to IFRS 17	2 September 2019
EFRAG hedge accounting questionnaire for insurers	16 September 2019
Contribute to the future agenda of the European Lab!	30 September 2019
EFRAG Discussion Paper Accounting for Pension Plans with an Asset-Return Promise	15 November 2019

For more information please see [EFRAG's consultations page](#).

## EFRAG PUBLICATIONS

### Final Comment Letter

On 20 June 2019, EFRAG published its final comment letter in response to the IASB Exposure Draft ED/2019/1 *Interest Rate Benchmark Reform* (Proposed amendments to IFRS 9 and IAS 39). For more details, please see the EFRAG website.

### Draft Comment Letters

On 6 June 2019 EFRAG published its draft comment letter in response to the IASB's Exposure Draft ED/2019/2 *Annual Improvements to IFRS Standards 2018-2020* and seeks constituents' views on the proposals. Comments are requested by 5 August 2019.

On 15 July 2019, EFRAG published its draft comment letter in response to the IASB's Exposure Draft ED/2019/4 *Amendments to IFRS 17* and seeks constituents' views on the proposals. Comments on the draft comment letter are requested by 2 September 2019.

On 28 June 2019, EFRAG published its draft comment letter in response to the IASB Exposure Draft ED/2019/3 *Reference to the Conceptual Framework* (Proposed amendments to IFRS 3) and seeks constituents' views on the proposals. Comments are requested by 17 August 2019.

On 14 June 2019, EFRAG published its draft comment letter in response to the IFRS Foundation Exposure Draft Proposed amendments to the IFRS Foundation Due Process Handbook and seeks constituents' views on the proposals.

On 5 June 2019, EFRAG published its draft comment letter in response to the IASB Exposure Draft ED/2019/2 *Annual Improvements to IFRS Standards 2018-2020* and seeks constituents' views on the proposals. Comments are requested by 5 August 2019.

### **Hedge accounting questionnaire for insurers**

On 14 June 2019, EFRAG has issued a hedge accounting questionnaire under IFRS 9/IAS 39 for European insurers that apply IFRS Standards. Responses are requested by close of business on Monday 16 September 2019.