



EFRAG UPDATE

January 2023

The EFRAG Update is published on a monthly basis to inform constituents about due process publications, public technical discussions held and decisions taken during that month.

PUBLICATIONS

Final Endorsement Advice

On 30 January 2023, EFRAG completed its due process regarding *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)* and submitted its Endorsement Advice Letter to the European Commission. The Endorsement Advice Letter to the European Commission can be found [here](#).

For more details, please see the [EFRAG website](#).

Draft Comment Letter

On 30 January 2023, EFRAG published its [Draft Comment Letter](#) in response to the IASB's Exposure Draft *2023/1 International Tax Reform - Pillar Two Model Rules (Proposed Amendments to IAS 12)*. In its letter, EFRAG welcomes the IASB's efforts to address the concerns of stakeholders about the implications for income tax accounting resulting from jurisdictions implementing the Pillar Two model rules.

Comments can be submitted until **27 February 2023**.

For more details, please see the [EFRAG website](#).

Academic Study: *Do companies disclose relevant information about intangibles? – insights from business model reporting and risk reporting*

As part of its project on better information on intangibles, EFRAG sponsored studies on intangibles together with ICAS. The study investigates the role of intellectual capital (IC) in the value creation process and provides a baseline in intangibles reporting for a sample of IC intensive high-tech companies.

The study can be consulted [here](#).

For more details, please see the [EFRAG website](#).

Academic Study: *The theory and practice of discounting in financial reporting under IFRS*

On 27 January 2023, EFRAG and ICAS published a co-sponsored academic study on the theory and practice of discounting. The study is available [here](#).

Comments are requested by **31 March 2023**.

For more details, please see the [EFRAG website](#).



WEBINARS AND ON-LINE OUTREACHES

Programme: EFRAG - BusinessEurope online outreach event *Variable consideration – alternatives to address current accounting challenges*

EFRAG published the [programme](#) for the EFRAG and BusinessEurope joint online outreach event *Variable consideration – alternatives to address current accounting challenges*. The event will take place on **16 February 2023** at 13:00 – 16:00 CET, you can register [here](#).

For more details, please see the [EFRAG website](#).

OPEN CONSULTATIONS

Title and description	Closing date
Academic study on the effects of IFRS 15 <i>Revenue from Contracts with Customers</i>	TBD
EFRAG's Draft Comment Letter on the IASB's Exposure Draft 2023/1 <i>International Tax Reform - Pillar Two Model Rules (Proposed Amendments to IAS 12)</i>	27 February 2023
EFRAG's Draft Endorsement Advice on Amendments to IAS 1 <i>Presentation of Financial Statements</i>	1 March 2023
Academic Study co-sponsored by EFRAG and ICAS <i>The Theory and Practice of Discounting in Financial Reporting under IFRS</i>	31 March 2023
EFRAG Discussion Paper <i>Accounting for Variable Consideration from a Purchaser Perspective</i>	31 May 2023

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

EFRAG FINANCIAL REPORTING BOARD (FRB)

Webcast meeting

The EFRAG FRB held a webcast meeting on [27 January 2023](#) and discussed the following topics:



IASB Project *International Tax Reform—Pillar Two Model Rules (IAS 12)*

EFRAG FRB approved a draft comment letter with a comment period until 27 February 2023. In the letter, EFRAG welcomes the IASB's efforts to address the concerns of stakeholders about the implications for income tax accounting resulting from jurisdictions implementing the Pillar Two model rules. EFRAG supports the IASB's proposal to introduce the aforementioned temporary exception to the requirements in IAS 12. However, EFRAG will engage with its constituents in outreaches during the consultation period on the ED to ascertain the usefulness of the proposed targeted disclosures for users and to assess the feasibility (including costs) for preparers.

Next meeting

The EFRAG FRB will hold a next meeting jointly with EFRAG FR TEG on [8 February 2023](#).

EFRAG FRB January 2023 written procedures

The EFRAG FRB approved the following document(s), using written procedures:

- EFRAG's Endorsement Advice on the IASB's publication *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*.

EFRAG FRB expected February 2023 written procedures

The EFRAG FRB is not expected to approve any documents using written procedures in February.

EFRAG FINANCIAL REPORTING TEG AND EFRAG SUSTAINABILITY REPORTING TEG

Webcast meeting

EFRAG FR TEG jointly with EFRAG SR TEG held a physical meeting on [17 January 2023](#) and discussed the following topics:

Introduction to EFRAG Financial reporting and Sustainability workplans

EFRAG FR TEG and EFRAG SR TEG Acting Chair gave an update of the workplans of the two pillars.

Outcome of EFRAG proactive research on intangibles

EFRAG FR TEG jointly with EFRAG SR TEG provided comments on the input received in response to EFRAG's Discussion Paper *Better information on intangibles – Which is the best way to go?* in order to form EFRAG recommendations to the IASB on the issue.



Scope of EFRAG FR proactive research on connectivity between financial and sustainability reporting

EFRAG FR TEG and EFRAG SR TEG provided comments on the scope and proposed two-phase approach to be applied in the EFRAG proactive research project on connectivity between financial and sustainability reporting. Members supported to start a project with a first phase focused on operational techniques of fostering the linkage between financial reporting and sustainability information. Members supported the formation of a multi-stakeholder advisory group to support the project as it is carried out by the financial reporting pillar EFRAG Secretariat under the supervision of EFRAG FR TEG and EFRAG FRB.

Next meeting

EFRAG FR TEG and EFRAG SR TEG will hold a next joint meeting on 18 October 2023.

EFRAG FINANCIAL REPORTING TECHNICAL EXPERT GROUP (FR TEG)

[Webcast meeting](#)

EFRAG FR TEG held a meeting on [18 and 19 January 2023](#) and discussed the following topics:

Lease Liability in a Sale and Leaseback (Amendment to IFRS 16)

EFRAG FR TEG agreed to recommend a final endorsement advice for consideration by the EFRAG FRB. The final endorsement advice was subsequently submitted to the EFRAG FR TEG through written procedure.

IASB Project *Supplier Finance Arrangements*

EFRAG FR TEG considered the IASB tentative decisions on the project on *Supplier Finance Arrangements*. Members broadly supported the direction of the proposed changes and expressed concerns that the project did not further consider some of the important disclosures related to presentation and classification of these arrangements in the statement of financial position and the statement of cash flows.

No decisions were taken at the meeting.

IASB Project *Business Combinations – Disclosures, Goodwill and Impairment*

EFRAG FR TEG discussed the IASB tentative decisions on subsequent accounting for goodwill, identifiable intangible assets acquired in a business combination, total equity excluding goodwill, and on other topics.

Members acknowledged the IASB's decision to retain the impairment-only approach, agreed with the IASB decisions not to change the recognition criteria in IFRS 3 *Business Combinations* for identifiable intangible assets acquired in a business combination and not to require an entity to present the amount of total equity excluding goodwill as a separate line item. Members also

supported the IASB tentative decision to consider two additional topics related to possible improvements to the effectiveness of the impairment test of cash-generating units containing goodwill.

EFRAG FR TEG suggested to consider some other issues, including how to determine CGUs cash flows containing right-of-use assets recognised applying IFRS 16 *Leases*.

No decisions were taken at the meeting.

IASB Project *International Tax Reform—Pillar Two Model Rules (IAS 12)*

EFRAG FR TEG discussed the proposed amendments to IAS 12 *Income Taxes* and was provided with the EFRAG Secretariat preliminary analysis in order to seek EFRAG FR TEG views to be considered in the forthcoming draft comment letter on the exposure draft ('ED'). Members generally supported the IASB's proposal to provide a temporary mandatory exception to the accounting for deferred taxes related to Pillar Two Model Rules (including those related to the qualified domestic minimum top-up tax). EFRAG FR TEG members generally appreciated the IASB's efforts in finding a compromise to satisfy both the need of users of financial statements to assess an entity's exposure to paying top-up tax and costs to preparers. EFRAG FR TEG members generally supported the disclosures proposed by the IASB's ED. However, members expressed some concerns about the cost benefit relationship of such disclosures asking to further discuss this topic especially with the users of the financial statements. Finally, members requested to encourage the IASB to clarify whether top-up tax based on the Pillar Two model rules are in scope of IAS 12 in situations outside the context of consolidated financial statements of the ultimate parent entity and whether and how the targeted disclosures could be applicable in these situations.

IASB Project *Rate-regulated Activities*

EFRAG FR TEG discussed the IASB tentative decisions made during its redeliberations in October 2022 on allowable expense and benchmark expenses and regulatory assets and regulatory liabilities arising from differences in regulatory recovery pace and assets' useful lives. Members agreed with the IASB tentative decision on allowed expenses. Members noted that there would be significant judgement involved to identify a direct (no direct) relationship between the regulatory capital base and the IFRS property, plant and equipment and it was therefore important to explore this concept further and test the outcome it could have on the application of the accounting model for regulatory assets and regulatory liabilities.

No decisions were taken at the meeting.

IASB Research Project *Business Combinations under Common Control*

EFRAG FR TEG was provided with an update on the November IASB and the December ASAF discussions. A few members were not supportive of a suggested proposal to have an option to apply the acquisition method for BCUCCs that do not affect NCS for reasons including that the purpose of the project is to reduce diversity in practice and would be against the project objective and the option would not help with comparability.

No decisions were taken at the meeting.



EFRAG Research Project *Better Information on Intangibles*

EFRAG FR TEG considered an outlined Recommendations and Feedback Statement prepared following the comments received in response to EFRAG's Discussion Paper *Better Information on Intangibles – Which is the best way to go?* EFRAG FR TEG suggested some amendments to the initial draft. EFRAG FR TEG decided to recommend the Recommendations and Feedback Statement for the approval of the EFRAG FRB by written procedure.

Next meetings

EFRAG FR TEG will hold a next physical meeting on [9 February 2023](#).

EFRAG FR TEG will hold additional joint meeting with EFRAG CFSS on [6 February 2023](#).

EFRAG FR TEG January 2023 written procedures

The EFRAG FR TEG approved the following document, using written procedures:

- EFRAG's Draft Comment Letter on IASB Project *International Tax Reform—Pillar Two Model Rules (IAS 12)*.

EFRAG FR TEG expected February 2023 written procedures

The EFRAG FRB is expected to approve the following document using written procedures in February:

- Recommendations and Feedback Statement on the EFRAG research project *Better Information on Intangibles*.

EFRAG'S SUSTAINABILITY REPORTING AND RELATED ACTIVITIES

EFRAG Governance

The call for candidates to join EFRAG's ESRS Digital Reporting Consultative Forum (ESRS DRCF) was closed on Monday 23 January 2023. EFRAG is currently examining the candidatures received with a view to have members appointed in the coming weeks. EFRAG received more than 70 applications from a wide range of stakeholders.

The ESRS DRCF will contribute to the development and maintenance of the XBRL Taxonomy of the European Sustainability Reporting Standards by providing regular views and recommendations on XBRL taxonomy-related issues to the EFRAG SRB and EFRAG SR TEG.

The first meeting of the ESRS DRCF is envisaged to take place as soon as feasible, after the appointment of the members.



EFRAG Sustainability Reporting Board (EFRAG SRB)

On [20 January 2023](#), the EFRAG SRB discussed a working paper on potential disclosures for the Mining sector as a pilot for the approach to be adopted in drafting sector-specific ESRs. This discussion was continued at its meeting on [24 January 2023](#) along with a similar discussion on a working paper on Oil and Gas upstream and downstream. The EFRAG SRB also discussed methodological aspects related to its draft for listed SMEs.

Next meeting

EFRAG SRB will hold its next webcast meeting on [7 February 2023](#).

EFRAG Sustainability Reporting Technical Expert Group (EFRAG SR TEG)

At its meeting on [12 January 2023](#), EFRAG SR TEG discussed working papers for the Coal mining and Mining sector standards. EFRAG SR TEG discussed similar papers for its Oil and Gas sector standard on [16 January 2023](#) and on [17 January 2023](#) the SR TEG discussed its approach to the standard for listed SMEs. On [25 January 2023](#) EFRAG SR TEG continued its discussion of a working paper for the Oil and Gas sector standard. At its meeting on [30 January 2023](#), EFRAG SR TEG continued this discussion and finalised its discussion on the standard for listed SMEs.

Next meeting

EFRAG SR TEG will hold its next webcast meeting on [2 February 2023](#).

EFRAG Workshops with the communities to support the development of ESRs for listed SMEs and the future voluntary standard for non-listed SMEs

On 27 January 2023, the EFRAG Secretariat organised the first workshop of the newly set-up community that supports the development of the ESRs for listed SMEs, small and non-complex financial institutions and captive insurances and re-insurances (LSME). The LSME ESRs are established in the CSRD (art. 19a(6) and 29c). EFRAG shall submit its technical advice in 2023 for the EU Commission to adopt the draft LSME ESRs as Delegated Act by June 2024. The LSME community is composed of a variety of stakeholders (preparers, users, researchers, NGOs, consultants and accountants specialised in listed SMEs, etc) from a wide range of European countries. An online questionnaire was sent to the workshop's participants in advance with the aim of discussing the replies at the meeting. About 50 community members attended the LSME workshop closed session and 110 additional participants joined the debriefing and Q&A public session.

On 31 January 2023, the EFRAG Secretariat organised the first workshop of the newly set-up community that supports the development of the future voluntary sustainability reporting standard for non-listed SMEs (VSME standard). The VSME standard is not stemming from the CSRD and therefore, it will not form part of the European Commission's Delegated Acts. Several stakeholders have expressed the need for EFRAG to develop such a voluntary mechanism to support micro, small and medium sized companies in Europe in delivering their sustainability information to the larger companies in their value chain or other financial and business partners. The VSME community comprises a variety of stakeholders (preparers,

users, researchers, NGOs, consultants and accountants specialised in SMEs, etc) from a wide range of European countries. An online questionnaire was sent to the workshop participants in advance and the replies were discussed at the meeting. About 90 community members attended the VSME workshop closed session. Additional 90 persons joined the debriefing and Q&A public session.

These two communities complement the existing EFRAG expert working group on SMEs which will continue to be in operation.

Other involvement in sustainability reporting

Platform on Sustainable Finance (PSF)

The first PSF held its last plenary meeting in mid-October 2022 and has ceased its activities since then. A call for application to the next PSF was launched by the European Commission in October 2022 with a view to have the next PSF mandate will run from Q1 2023 to Q4 2024.

The next PSF is expected to address the following identified priorities:

- The usability of the taxonomy and the wider EU sustainable finance framework;
- The development of additional taxonomy technical screening criteria across all six environmental objectives and possible revisions and/or updates of the criteria where appropriate; and
- The implementation of specific policy measures of the strategy on financing the transition to a sustainable economy.

EFRAG has been invited as observer to the new PSF by Commissioner McGuinness.

EFRAG 2023 workplan for development and consultation of draft ESRS

The EFRAG Administrative Board has met on the [1 February 2023](#) and confirmed the following:

EFRAG plans to issue for consultation at the beginning of April the following exposure drafts, open for consultation for 100 days:

- Draft SEC 1 (ESRS Sector classification system);
- Draft ESRS on Coal and Mining; and
- Draft ESRS on Oil and Gas (upstream and downstream).

EFRAG plans to issue for consultation at the beginning of May the following exposure drafts, open for consultation for 90 days:

- Draft ESRS for Listed Small Medium Enterprises (LSME)¹;
- Draft Agriculture, Farming and Fishing; and

¹ The EFRAG SRB and EFRAG SR TEG would make best efforts to extend the consultation period for the Listed SMEs standard to at least 100 days, to the extent is feasible. This may imply that the listed SMEs standard is consulted upon separately from the batches of sector specific standards.



- Draft Road Transport.

Closed sessions of EFRAG SRB and EFRAG SR TEG

Starting from January 2023, in the event that (part of) meetings of the EFRAG SRB or EFRAG SR TEG are held as closed sessions, in the next public session or meeting the Chair provides a short update on the topics discussed.

EFRAG SRB

- 12 January 2023;
- 20 January 2023; and
- 27 January 2023.

EFRAG SR TEG

- 10 January 2023;
- 17 January 2023; and
- 19 January 2023 (Q&A session).