EFRAG USER UPDATE

March 2023

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

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LOOKING BACK AT 2022

In 2022, EFRAG served the European public interest by developing and promoting European views, including those from users of financial statements, in the field of financial and sustainability reporting.

Highlights from the year 2022 include:

Advice to the European Commission – Financial Reporting

- EFRAG draft endorsement advice on *Amendments to IAS 1 Presentation of Financial Statements*, which have the objective of clarifying the principles in IAS 1 for the classification of liabilities as either current or non-current. EFRAG's overall preliminary assessment is that the Amendments satisfy the criteria for endorsement for use in the EU and therefore recommends its endorsement. EFRAG is seeking comments on all aspects of its analysis supporting its preliminary conclusions. Open for comments until 1 March 2023.
- EFRAG draft endorsement advice on *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16),* which clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 *Revenue from Contracts with Customers* to be accounted for as a sale. EFRAG's overall preliminary assessment is that the Amendments satisfy the criteria for endorsement for use in the EU and therefore recommends its endorsement. EFRAG's draft advice was open for comments until 9 January 2023. EFRAG has submitted its final endorsement advice on 30 January 2023.

- EFRAG [positive final endorsement advice](#) on *Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendment to IFRS 17)* published on 31 January 2022was endorsed by the European Commission on 9 September 2022. The Amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities. IFRS 17 *Insurance Contracts* incorporating the amendment is effective for annual reporting periods beginning on or after 1 January 2023.

Advice to the European Commission - Sustainability Reporting

- In November 2022, EFRAG submitted the [first set of draft ESRS](#) (European Sustainability Reporting Standards) to the European Commission in its role as technical adviser to the European Commission. This first set, approved by the EFRAG SRB, supported by the EFRAG SR TEG, took into consideration the input from the public consultation on the draft ESRS exposure drafts.

Cross-cutting standards					
ESRS 1 General requirements					
ESRS 2 General disclosures	**Governance**	**Startegy**	**Impact, risk and opportunity management**	**Metrics and targets**	
Topical standards					
Enviromental	**ESRS E1** Climate change	**ESRS E2** Pollution	**ESRS E3** Water and Marine Resources	**ESRS E4** Biodiversity and Ecosytems	**ESRS E5** Biodiversity and Ecosytems
Social	**ESRS S1** Own Workforce	**ESRS S2** Workers in the value chain	**ESRS S3** Affected communities	**ESRS S4** Consumers and end-users	
Governance	**ESRS G1** Business conduct				
Appendices					
Appendix I ESRS Index	**Appendix II** Final CSRD requirements for ESRS	**Appendix III** Datapoints EU Law	**Appendix IV** TCFD-EFRAG Comparative analysis final	**Appendix V** Comparison of IFRS and ESRS 1 & 2	**Appendix VI** Glossary and acronyms

Input to the IASB's consultations

- EFRAG [Summary Report and Recommendations](#) to the IASB on its project *Primary Financial Statements* (December 2022). From September to November 2022, EFRAG and the IASB organised joint outreach roundtables with European Stakeholders to discuss key tentative changes to the IASB's proposals in the Exposure Draft *General Presentation and Disclosures*. The EFRAG *Summary Report and Recommendations* summarised the feedback received during those events and provided a number of recommendations to the IASB.

- EFRAG [final letter](#) on the IFRS Interpretations Committee's Tentative Agenda Decision in the final phase of implementing IFRS 17(May 2022).

- EFRAG comment letters in response to the IASB's Exposure Drafts *Non-Current Liabilities with Covenants* and *Supplier Finance Arrangements* (March 2022). In the exposure drafts, the IASB proposed to clarify the classification of liabilities with covenants as non-current versus current and to enhance the transparency of reporting for supplier finance arrangements and their effects on an entity's liabilities and cash flows.
- EFRAG comment letter in response to the IASB's Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (February 2022). The exposure draft proposed a new IFRS Accounting Standard that would permit subsidiaries to apply reduced disclosure requirements while applying the full recognition, measurement and presentation requirements in IFRS Accounting Standards.
- EFRAG comment letter on the IASB's Exposure Draft *Disclosure Requirements in IFRS Standards – A Pilot Approach* (Proposed Amendments to IFRS 13 and IAS 19) (January 2022). This exposure draft proposed a new approach for the IASB to develop disclosure requirements and test that approach by applying it to IFRS 13 *Fair Value Measurement* and IAS 19 *Employee benefits*.
- EFRAG comment letter in response to the IASB's Request for Information as a part of the Post-implementation Review of IFRS 9 *Financial Instruments* that was focused only on the classification and measurement requirements (January 2022).

EFRAG Research

- EFRAG's Discussion Paper *Accounting for Variable Consideration – from a Purchaser's Perspective* (September 2022). The Discussion Paper identifies the accounting issues arising from variable consideration faced by purchaser entities and focusses on two issues faced by purchaser entities where there is divergence in practice, and presents alternatives for accounting requirements. Open for consultation until 31 May 2023.
- EFRAG's Recommendations and Feedback Statement on EFRAG's Discussion Paper *Accounting for Crypto-Assets (Liabilities)* (April 2022). The Recommendations and Feedback Statement summarised the main comments received by EFRAG on its Discussion Paper and included EFRAG's recommendations for developing IFRS requirements for crypto-assets (liabilities).

LOOKING TO THE FUTURE: 2023

IASB Third Agenda Consultation and work plan

After considering the feedback received on its *Third Agenda Consultation*, in July 2022 the IASB published a feedback statement summarising the feedback on the Request for Information and the IASB's activities and work plan for 2022 to 2026.

The IASB decided to continue working mainly on the projects on its current work plan and to add only few new projects. Namely, the IASB decided:

- to include in its research project pipeline for 2022 to 2026 two important projects for users of financial statements:

- *Intangible Assets*: this project will comprehensively review IAS 38 *Intangible Assets*; and
- *Statement of Cash Flows and Related Matters*: as part of its initial work, the IASB will consider whether the project should aim to review IAS 7 *Statement of Cash Flows* comprehensively or, instead, to make more targeted improvements.

- to add a project on *Climate-related Risks in the Financial Statements* to its maintenance project pipeline. This project will investigate accounting matters raised by respondents on this topic and decide if any narrow-scope amendments to IFRS Accounting Standards are needed.

In addition, following the feedback received during the PIR of IFRS 9 – *Classification and Measurements*, the IASB decided to add a third project on *Amortised Cost Measurement* to its research project pipeline. This project will consider modifications of financial assets and liabilities, the application of the effective interest method to floating rate financial instruments and the interaction of these two areas. The project may also consider any additional findings from the PIR of IFRS 9 – *Impairment*.

The IASB's maintenance project pipeline also includes the narrow-scope project *Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 and IFRS 16)* with the aim of specifying how an entity accounts for the sale of a subsidiary when the entity leases back one or more of the assets held by the subsidiary.

In early 2023 the IASB expects to issue final amendments to IAS 12 *Income Taxes* for the *International Tax Reform – Pillar Two Model Rules* project and amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* for the *Supplier Finance Arrangements* project. In addition, the IASB has three projects that are progressing towards an IFRS Accounting Standard (*Primary Financial Statements*; *Rate-regulated Activities*; and *Disclosure Initiative – Subsidiaries without Public Accountability: Disclosures*). The issuance dates of these potential IFRS Accounting Standards are to be determined but will not be before 2024.

The table below sets out the estimated timetable for IASB's consultation documents in consultation or expected to be in consultation in the next six months (prepared by EFRAG Secretariat).

	2023									
Consultation Documents	**J**	**F**	**M**	**A**	**M**	**J**	**J**	**A**	**S**	**O**
Exposure Draft - IFRS for SMEs	■	■	■							
Exposure Draft - International Tax Reform - Pillar Two Model Rules	■	■								
Exposure Draft - Amendments to the Classification and Measurement of Financial Instruments			■	■	■	■				
Exposure Draft - Financial Instruments with Characteristics of Equity							■	■	■	■
Request for Information - PIR of IFRS 15 - Revenue from Contracts with Customers					■	■	■	■		
Request for Information - PIR of impairment requirements in IFRS 9 - Financial Instruments					■	■	■	■		
IFRS Amendment - Supplier Finance Arrangements (EFRAG Endorsement Consultation)				■	■	■				

EFRAG Sustainability Reporting Activities in 2023

EFRAG will continue its work as standard setter on ESRS (European Sustainability Reporting Standards) and focus on sector-specific standards and a standard for listed SMEs (article 29c of the Corporate Sustainability Reporting Directive – Directive (EU) 2022/2462) in 2023.

EFRAG Outreach Activities in 2023

To stimulate responses and help gather constituents' views on different financial reporting and sustainability reporting topics, EFRAG is planning to organise outreach events throughout Europe. These will include events with users of financial statements, field-tests and events on ESRS exposure drafts. EFRAG will also issue supporting documents to raise awareness about our public consultations (e.g., videos and webinars) and new tools to encourage more feedback (e.g., surveys and different types of outreach activities).

EFRAG BusinessEurope – joint online outreach event: *Variable consideration – Alternatives to address current accounting challenges*

EFRAG and BusinessEurope invite interested stakeholders to a joint online outreach event on Thursday 16 February 2023, 13:00 – 16:00 CET to discuss issues arising and possible solutions in the accounting for variable consideration as highlighted in EFRAG's latest Discussion Paper. **Please register for the online outreach event here**.

FINANCIAL REPORTING ACTIVITIES

Primary Financial Statements

The IASB published the Exposure Draft *General Presentation and Disclosures* in December 2019 with a comment period ending September 2020. The proposals aim to improve how information is communicated in the financial statements, with a focus on information about performance in the statement of profit or loss. The exposure draft proposed:

- requiring presentation of new defined subtotals in the statement of profit or loss;
- requiring disclosure of information about some performance measures specified by management (defined as management performance measures); and
- strengthening the requirements for disaggregating information.

The IASB discussed a summary of the feedback received at its December 2020 and January 2021 meetings. The IASB has since been redeliberating the proposals in the exposure draft and has made tentative decisions on key aspects of the proposals in response to the feedback received. Some of these decisions result in changes from the proposals in the exposure draft, with the objective to either make the proposals easier to apply or to reduce the cost of application for preparers.

Outreach activities

To receive input from preparers and stimulate the discussion on the key tentative changes to the IASB proposals included in the exposure draft (resulting from the IASB's redeliberations), from September to November 2022, EFRAG and the IASB arranged joint outreach roundtables with European Stakeholders. The purpose of the targeted outreach activity was to assess whether the selected tentative decisions made by the IASB will work as intended and achieve the intended balance of costs and benefits.

The IASB sought feedback on the following topics:

- Subtotals in the statement of profit or loss: questions on the IASB's tentative decision to change the approach for classifying income and expenses within the financing category and aspects of the proposals for entities with specified main business activities;
- Management performance measures (MPMs): questions on the IASB's tentative decision to introduce a rebuttable presumption that a subtotal of income and expenses included in public communications outside financial statements represents management's view of an aspect of the entity's financial performance applying the proposed definition and the proposed simplified method of calculating the tax effect for reconciling items;
- Disclosure of operating expenses by nature: questions on the IASB's revised proposal to require an entity to disclose the amounts included in each line item in the statement of profit or loss for depreciation, amortisation, and employee benefits; and
- Unusual income and expenses: questions on the IASB's tentative decision to not proceed with any specific requirements for unusual income and expenses as part of this project.

In addition, EFRAG considered that it was important to have feedback from European Stakeholders on the following topics (in addition to those raised by the IASB):

- The classification of income and expenses from subsidiaries, associates and joint-ventures;
- The IASB's new approach on the classification of items in the financing category, including the new application guidance on classification of hybrid contracts with host liabilities and embedded derivatives;
- The classification of income and expenses from derivatives and hedging instruments; and
- Changes to the scope and requirements on MPMs.

Summary of feedback

In general, participants in the roundtable discussions welcomed the IASB's efforts to improve the structure and content of primary financial statements, particularly users of financial statements, as it would improve comparability. Participants also welcomed the roundtables organised by EFRAG and the IASB's efforts to address the comments received by the IASB on its exposure draft, particularly on difficult topics such as disclosures by nature when presenting by function and the proposed disclosures on unusual income and expenses.

However, some preparers noted that the IASB's proposals would still lead to considerable implementation costs for them in specific areas, such as the proposed disclosures by nature when presenting by function. Participants in the roundtables also raised several questions and expressed concerns on the IASB's tentative decisions.

Some of these questions and concerns had already been raised in the IASB's consultation on the 2019 exposure draft. Nonetheless, most of the concerns and questions were related to the implementation of the revised proposals.

The key concerns expressed by participants were:

- **Operating category**: there were questions on the classification of specific items and concerns on having an operating category defined as a residual category, which would be wide and reflect ancillary activities and unusual items (similar feedback was received in the 2019 exposure draft consultation). For conglomerates, determining the entity's main business activities at the reporting-entity level will be complex and costly;
- **Financing category**: the wording used by the IASB to define the financing category was not always well understood and there was a call for additional application guidance. Many financial institutions also expressed concerns on the IASB's revised proposal on the classification of income and expenses from lease liabilities, which could no longer be reclassified into the operating category under paragraph 51 of the ED;
- **Cash and cash equivalents**: both users and preparers highlighted that it would be more appropriate for corporates to present income and expenses from cash and cash equivalents in the financing category, particularly for those that use a net-debt concept. Financial institutions and conglomerates were also concerned about not having the possibility of classifying income and expenses from cash and cash equivalents within the subtotal operating profit or loss in accordance with paragraph 51 of the exposure draft;
- **Derivatives**: corporate companies expressed concerns that the default category for the classification of derivatives and hedging instruments was now the operating category;
- **Associates and joint ventures**: there were mixed views on the presentation of income and expenses from associates and joint ventures (similar feedback was received on the 2019 exposure draft consultation) and many questions were raised on the use of additional subtotals related to associates and joint ventures (e.g., interaction of such subtotals with the IASB's proposals on specified subtotals and MPMs);
- **Associates and joint ventures for insurance companies**: the insurance industry highlighted that the issue of associates and joint ventures is important and requested presenting investments in associates and joint ventures that are linked to insurance contracts within the operating profit. Else, there would be a mismatch as the operating category would only include expenses related to insurance contract liabilities and no associated investment results from the assets held to service those liabilities;

- **Analysis of expenses**: users and preparers often expressed different views on the proposed disclosures. Users and a few preparers were more supportive of the IASB's approach included in the 2019 exposure draft, while other preparers preferred the IASB's revised disclosures. However, targeted outreach participants (including users) acknowledged that the IASB's tentative decision was a compromise, even if it will costly for preparers;
- **Management performance measures**: there were questions on the extent to which additional subtotals would be considered as MPMs. Highly regulated entities, such as banks, raised questions on the effective applicability of the rebuttable presumption for all the significant measures communicated for regulatory purposes. Finally, there were mixed views on the simplified approach to calculating the tax effect; and
- **Unusual items**: although many preparers welcomed the IASB's tentative decision to withdraw its proposals on unusual income and expenses, the majority of users and regulators were disappointed with the IASB's decision and considered that any high-level application guidance would be useful to mitigate diversity in practice.

Finally, several participants highlighted the importance of completing the project as soon as possible as it was considered very useful. In this respect, these participants were willing to reach a compromise to ensure a timely publication of a future IFRS standard.

EFRAG recommendations

Considering the feedback received and EFRAG's position in its letter to the IASB on the 2019 exposure draft, EFRAG considers that it would be useful to:

- **Operating category**: retain the existing approach but consider the comments provided by EFRAG in its comment letter on the IASB's 2019 exposure draft (please see below for more details) and support it with an explanation of the reasoning behind the chosen approach and its resulting impact on the use of MPMs in the Basis for Conclusions;
- **Financing category**: improve the definition of the financing category by providing application guidance to better explain the wording used by the IASB in its definition and illustrate how its definition would apply to some transactions;
- **Cash and cash equivalents**: classify income and expenses from cash and cash equivalents in the financing category as it would provide relevant information to users, particularly when corporates use a net-debt concept. In addition, for financial institutions and conglomerates, it would be useful to retain the possibility of classifying income and expenses from cash and cash equivalents in the operating category under paragraph 51 of the ED;
- **Derivatives**: clarify the IASB's proposals related to situations that would involve grossing up gains and losses and consider alternative solutions, including revisiting the default presentation in the operating category, to mitigate the issue raised by corporates related to bringing the impact of derivatives (e.g., related gains and losses) into the operating category, which could bring significant volatility to this category;
- **Associates and joint ventures**: have more information and transparency on the nature of the investments in associates and joint ventures in the disclosures (e.g.,

investees that are also in the value chain of the group and therefore closely linked to their operations). Also provide clarifications on the interaction of having additional line items and subtotals (in accordance with paragraph 66 of the exposure draft) with the IASB's proposals on specified subtotals and MPMs, including when the reconciliation disclosure requirements would apply;

- **Associates and joint ventures for insurance companies**: present results from investments in associates and joint ventures that are linked to insurance contracts (e.g., backing up insurance liabilities) in the operating category. Otherwise, there would be a mismatch as the operating category would only include expenses related to insurance contract liabilities and no associated investment results from the assets held to service those liabilities;
- **Analysis of expenses**: retain the IASB's revised approach on requiring companies to disclose an analysis of their operating expenses by nature when presenting by function, but suggest adding impairments to the list of minimum items to be disclosed. In addition, EFRAG is not in favour of an approach for an entity to disclose, for all operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss. Finally, the analysis of the costs and benefits of the proposed disclosures should be carefully explained in the IASB's effects analysis;
- **Management performance measures**: have additional application guidance on the extent to which additional subtotals (e.g., subtotals of subtotals and subtotals merely reflecting reclassification of line items) would be permitted and whether they would be considered as MPMs or specified subtotals. EFRAG also expresses some concerns on establishing a rebuttable presumption on MPMs for highly regulated entities as this could increase complexity and may unintendedly enlarge the scope of MPMs. EFRAG is concerned that the IASB's tentative decision to require an entity to disclose, for each reconciling item, the amount(s) related to each line item(s) in the statement(s) of financial performance may significantly increase the costs for some preparers; and
- **Unusual items**: have a definition of unusual items (a workable definition that could be improved in the future with practice) or at least information on how an entity defines its unusual items (if the entity identifies such items in the financial statements). It would also be useful to provide clarity on the possibility of showing separately in the statement of profit or loss items that an entity views as non-recurring or unusual items (e.g., a subtotal within the IASB's required subtotals).

Finally, EFRAG highlights that this project responds to a strong demand from users of financial statements to have improvements on how information is communicated in the financial statements.

Next steps

In 2023, the IASB will consider the feedback received during the targeted outreach and continue the redeliberation process with the aim of issuing a potential IFRS Accounting Standard not earlier than 2024.

Post Implementation Review of IFRS 15

The IASB decided to begin the PIR of IFRS 15 *Revenue from Contracts with Customers* in the second half of 2022. IFRS 15 establishes the principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

The first phase of the IASB project is currently underway and the IASB is seeking feedback on fundamental or specific application questions for nine topics (step 1: identifying the contract(s) with a customer; step 2: identifying the performance obligations (POs) in the contract; step 3: determining the transaction price; step 4: allocating the transaction price to the POs; step 5: recognising revenue when (as) a PO is satisfied; contract costs; disclosures; transition; and application guidance – principal vs agent and licencing).

As preparatory work, the EFRAG Secretariat has held several meetings with EFRAG working groups and constituents to collect potential issues. The EFRAG Secretariat has also reviewed IFRS 15 issues raised before the IFRS Interpretation Committee, related enforcement issues raised by ESMA, issues raised during the US GAAP PIR on Accounting Standards Update Revenue from Contracts with Customers (Topic 606) and academic papers.

As a result of these meetings and research, the EFRAG Secretariat have presented an overview of the general messages and the preliminary issues identified during the preparatory work during the meeting of EFRAG FR TEG – CFSS on 30 November 2022 (for more details, see agenda paper 07-01).

Next steps

The IASB aims to publish a Request for Information in the first half of 2023, with a comment period of 120 days.

The EFRAG Secretariat will continue its outreach to preparers and users in impacted sectors as well as to regulators. In future EFRAG FR TEG meetings, there will be a prioritisation of the identified issues and discussion on appropriate recommendations to be made to the IASB in EFRAG's comment letter to the IASB Request for Information.

In addition, EFRAG is supporting an academic study conducted via a survey to preparers and users to assess the effects and net benefits (costs) of IFRS 15 implementation/adoption. The study encompasses analysis of benefits for management in addition to implementation costs and benefits by users of reporting information. The results of this study will be included in EFRAG's comment letter.

Please, click here to complete the survey

Business Combinations – Disclosures, Goodwill and Impairment

The IASB added this project to its research programme in response to feedback to the PIR of IFRS 3 *Business Combinations*. The IASB completed its PIR of IFRS 3 and published the Report and Feedback Statement on the PIR of IFRS 3 in June 2015.

The project objective is to explore whether entities can, at a reasonable cost, provide users of financial statements with more useful information about the business combinations those entities make. To meet this objective the IASB is considering additional disclosure requirements about business combinations, the subsequent accounting for goodwill and other topics related to business combinations such as the recognition of acquired intangible assets.

In March 2020, the IASB published the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* (the DP) which sets out the IASB's preliminary views on how companies can provide better information so that investors can hold companies to account for acquisitions of other companies.

In December 2022 the IASB decided to change the name of the project from Goodwill and Impairment to *Business Combinations – Disclosures, Goodwill and Impairment* and to add this project to its standard-setting programme.

The IASB has since been deliberating its preliminary views in light of feedback to the DP and other research and outreach conducted by the IASB staff.

Impairment-only model

At its meeting in November 2022 the IASB concluded the long series of discussions of whether to retain the impairment only model or consider exploring the amortisation of goodwill, by **deciding to maintain its preliminary view to retain the impairment-only model for the subsequent accounting for goodwill**.

The IASB acknowledged the strongly-held and divergent views about the appropriate model for the subsequent accounting for goodwill which are linked to the conceptual question of what the nature of goodwill is and whether goodwill is a wasting or a non-wasting asset.

In its analysis the IASB assessed whether there is compelling evidence that the reintroduction of amortisation of goodwill would:

- improve information provided to users about the business combinations;
- reduce costs for stakeholders.

The IASB did not find compelling evidence that one of these views is more appropriate than the other and, hence, concluded that there is also no compelling evidence that reintroducing amortisation of goodwill would significantly improve the information for users.

The IASB noted that feedback on whether an amortisation-based model would significantly reduce costs for entities was also inconclusive and referred to the doubts expressed by FASB in this respect. The importance of convergence with the FASB[1] on this topic in relation to reducing costs was also highlighted. Furthermore, the transition would also be costly. Hence, the IASB concluded that there was no compelling evidence that reintroducing amortisation of goodwill would significantly reduce costs for entities.

The project will therefore focus on a new package of disclosure requirements and how to simplify of the impairment test under IAS 36 *Impairment of Assets*.

[1] At its meeting on 15 June 2022, the FASB reviewed the package of discussions and decisions taken so far, considered the overall effect on benefits and costs, and decided to deprioritise and remove the project on goodwill and impairment from its technical agenda.

Main IASB redeliberation to date

Feedback received from preparers on the IASB's preliminary views included in the DP on the proposed new disclosures highlighted the following concerns:

- commercial sensitivity – that information could contain sensitive information that, if disclosed, could harm the entity;
- forward-looking information – that information could contain information about the future that, if disclosed, could increase litigation risk;
- integration – an entity may not be able to disclose information that is representative of the performance of a business combination if the acquired business is integrated into the entity's existing operations; and
- auditability – some information that would be required by the preliminary views may be costly, or impossible, to audit.

In order to address these issues, in September 2022 the IASB tentatively decided to:

- require some of the information (objectives, metrics, targets and actual performance of business combinations) for only a subset of business combinations; and
- exempt entities from disclosing some information in specific circumstances.

Subset

A subset would be intended to capture **strategically important business combinations** (that is a business combination, which if it fails to achieve its objective(s) would seriously jeopardise the entity's achievement of its strategy).

A subset of material business combinations would be identified using a short, exhaustive list of quantitative and qualitative thresholds:

- quantitative thresholds – business combinations in which the acquired business represents more than 10% of the reporting entity's revenue, operating profit or total assets;
- a qualitative threshold – business combinations that aim to enter a new geographic location or start a new line of business.

If a business combination meets any of those thresholds an entity would disclose the required information.

Exemption

The IASB tentatively decided to propose an exemption in specific circumstances that would permit an entity not to disclose information about:

- management's objectives for a business combination;
- the metrics and targets management will use to monitor whether the objectives for the business combination are being met; and

- quantitative information about synergies expected to arise from the business combination.

The IASB tentatively decided to propose no exemption from disclosing information about the actual performance in subsequent periods using the metrics management uses to monitor whether the objectives for the business combination are being met.

The IASB staff recommended that the exemption should be designed to allow entities to not disclose a particular item of information in situations in which disclosing that item of information can be expected to prejudice seriously any of the entity's objectives for the business combination.

The IASB discussed ways to develop the exemption, but has not yet discussed the exact wording of the application guidance that would support the exemption.

Next steps

In the coming months in 2023, the IASB will discuss:

- detailed aspects of the package of disclosure requirements – for example:
    - details of the exemption and accompanying application guidance;
    - level of aggregation at which entities would disclose information about expected synergies;
    - management approach to information about subsequent performance of business combinations including for example, whether it is appropriate to identify the information to be disclosed using the information an entity's Chief Operating Decision Maker reviews;
    - length of time for which to require entities to disclose information about the subsequent performance of business combinations;
    - other aspects – for example the scope of entities subject to the disclosure requirements about the subsequent performance of business combinations.
- the IASB's preliminary views on simplifying the application and improving the effectiveness of the impairment test in IAS 36.

Once the IASB has made tentative decisions on all aspects of the project, the IASB staff will ask the IASB whether the package as a whole meets the project objective and whether it would like to publish an exposure draft setting out its proposals.

Amendments to the Classification and Measurement of Financial Instruments (resulting amendments from PIR of IFRS 9 – *Classification and Measurement*)

In May 2022, in the context of the PIR of IFRS 9 – *Classification and Measurement*, respondents raised many questions about how to apply the solely payments of principal and interest (the SPPI) requirements to financial assets with ESG-linked features, and about the scope of the requirements for contractually-linked instruments (CLIs). The IASB therefore decided to start a standard-setting project to clarify particular aspects of the IFRS 9 requirements for assessing a financial asset's contractual cash flow characteristics and to provide further guidance relating to financial assets with non-recourse features and CLIs.

In June 2022, the IASB discussed the objective, scope and indicative timetable for the project. The objective is to make clarifying amendments to the application guidance in paragraphs B4.1.7 to B4.1.26 of IFRS 9 to enable the consistent application of the SPPI requirements and to consider whether additional disclosure requirements are needed.

In September 2022, the IASB tentatively decided in line with the IASB staff's recommendations to clarify the contractual cash flow characteristics requirements in IFRS 9, the application of the SPPI requirements in IFRS 9 to financial assets with non-recourse features and the requirements in IFRS 9 for contractually linked instruments – CLIs. In its October 2022 meeting, the IASB agreed with the IASB staff's recommendations for proposed disclosure requirements, transition requirements and effective date.

In addition, the IASB considered feedback on the requirements in IFRS 9 relating to equity instruments for which an entity has elected to present fair value changes in other comprehensive income (FVOCI). The IASB decided to make no changes to those requirements. However, the IASB tentatively decided to amend paragraph 11A of IFRS 7 *Financial Instruments: Disclosures* to require disclosure of:

- the aggregated fair value of equity investments for which the OCI presentation option is applied at the end of the reporting period; and
- changes in fair value recognised in OCI during the period.

Furthermore, the IASB considered possible standard-setting options to respond to concerns raised about the potential outcomes of applying the derecognition requirements in IFRS 9 to the settlement of a financial asset or a financial liability via electronic cash transfers (the IFRS IC TAD Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9), published in September 2021). The IASB tentatively decided to develop an accounting policy choice to allow an entity to derecognise a financial liability before it delivers cash on the settlement date when specified criteria are met.

Therefore, the IASB has expanded the original scope of the *Contractual Cash Flow Characteristics of Financial Assets (Amendments to IFRS 9)* project and changed its name to *Amendments to the Classification and Measurement of Financial Instruments*.

Finally, in November 2022, the IASB discussed a summary of its response to feedback from the PIR of the classification and measurement requirements in IFRS 9 and decided that adequate work had been completed to conclude the PIR and for the IASB staff to prepare the report and feedback statement (published in December 2022).

Furthermore, based on its analysis and prioritisation assessment, at its July 2022 meeting, the IASB decided to add a standard-setting project to its research pipeline to clarify the requirements in IFRS 9 for modifications of financial assets and liabilities and applying the effective interest method. Any forthcoming standard-setting project will also consider the findings of the PIR of IFRS 9 – *Impairment*.

Next steps

The forthcoming exposure draft is expected in Q1 2023, with a comment period of 120 days, and will include the amendments related to the following three different topics:

- the requirements for assessing a financial asset's contractual cash flow characteristics;
- the accounting policy choice for derecognition of financial liabilities; and
- the disclosure for equity instruments measured at FVOCI.

Post Implementation Review of IFRS 9 – *Impairment*

The IASB decided to begin the PIR of the IFRS 9 – *Impairment* requirements in the second half of 2022. IFRS 9 sets out the requirements for recognition of expected credit losses for all financial instruments that are subject to impairment accounting.

The objective of a PIR is to assess the effect of the new requirements on users of financial statements, preparers, auditors and regulators following the issuance and application of those requirements. Specifically, the IASB assesses whether:

- overall, the new requirements are working as intended. Fundamental questions (e.g., 'fatal flaws') about the core objectives or principles – their clarity and suitability – would indicate that the new requirements are not working as intended; and
- there are specific questions about application of the new requirements. Such questions would not necessarily prevent the IASB from concluding that the new requirements are operating as intended but may nonetheless need to be addressed if they meet the criteria for whether the IASB would take further action.

A PIR consists of two phases:

- the first phase involves an initial identification and assessment of the matters to be examined, which are then the subject of a public consultation by the IASB in the form of a Request for Information; and
- in the second phase, the IASB considers the comments received from the public consultation along with information it has gathered from any additional analyses and other consultative activities.

The first phase of the IASB project is currently underway and the IASB is seeking feedback on fundamental or specific application questions for eight topics (general approach; determining significant increases in credit risk; measurement of ECLs; credit-impaired on initial recognition; simplified approach for trade and lease receivables; loan commitments and financial guarantees; disclosures; and transition).

As preparatory work, the EFRAG Secretariat has held several meetings with EFRAG working groups and constituents to collect potential issues. As a result of these meetings, the EFRAG Secretariat have identified 19 issues which were presented for a first discussion during the meeting of EFRAG FR TEG – CFSS on 28 June 2022 (for more details, see agenda paper 15-02).

Next steps

The IASB aims to publish a Request for Information in the first half of 2023 (probably in Q2), with a comment period of 120 days.

The EFRAG Secretariat is working on the categorisation and prioritisation of the issues identified which will be discussed in future EFRAG working groups and FR TEG meetings in preparation of EFRAG's comment letter to the IASB's Request for Information.

First IFASS meeting under EFRAG secretariat

On 27-28 September 2022, the International Forum of Accounting Standard Setters (IFASS) held a meeting in London that was sponsored by the IFRS Foundation. It was the first meeting since EFRAG took over the Secretariat of IFASS.

At the meeting, the following financial and sustainability reporting topics were presented and discussed by IFASS participants:

- subsequent measurement of goodwill;
- PIR of IFRS 9 – *Classification and Measurement*, and accounting ESG-linked financial instruments under US GAAP;
- improving cash-flow reporting;
- PIR of IFRS 15;
- sustainability reporting: reporting on climate-related risks; and an update on the TNFD project on nature-related disclosures;
- accounting for digital assets;
- second comprehensive review of IFRS for SMEs Accounting Standard and an update on the INPAG adaptation of the standard; and
- way forward for future IFASS meetings.

The report with key messages and points of discussion on the above topics is available here.

EFRAG Conference "Where is corporate reporting heading?"

On 7 December 2022, the EFRAG hosted a conference to debate the new trends in corporate reporting following the Environmental, Social and Governance (ESG) revolution and the connectivity with financial reporting.

High-level speakers from the financial and sustainability reporting sectors provided their views and share thoughts during three panel discussions on major topics:

- Connectivity: financial and sustainability in corporate reporting
- Financial Reporting: challenges ahead
- Sustainability Reporting: trendsetting the future of corporate reporting

Mairead McGuinness, European Commissioner for Financial Stability, Financial Services and the Capital Markets Union, provided a keynote speech.

Access the conference recordings here.

Read the summary report here.

SUSTAINABILITY REPORTING ACTIVITIES

The European Commission adopted in April 2021, a legislative proposal for a Corporate Sustainability Reporting Directive (CSRD) which would require companies within its scope to report in compliance with European Sustainability Reporting Standards (ESRS) adopted by the European Commission as delegated acts. Under the proposed CSRD, EFRAG would be the technical advisor to the European Commission developing draft ESRS accompanied by a Basis for Conclusions, Cost-benefit Analysis and guidance for Digital Reporting.

In June 2022, the CSRD text provisionally agreed between the European Commission, the Council and the European Parliament was published. On 16 December 2022, the final text Corporate Sustainability Reporting Directive was published in the Official Journal of the EU. The CSRD text confirms the role of EFRAG as technical advisor providing draft ESRS to the European Commission.

In November 2022, EFRAG announced that it submitted the first set of draft ESRS to the European Commission. This set, approved by the EFRAG SRB with the support of EFRAG SR TEG, considers input from the public consultation on the draft ESRS EDs (launched in April 2022). The first set of reporting standards (12 draft ESRS) includes:

- cross-cutting standards, which cover the provisions applying to:
    - General requirements that undertakings should comply with when preparing and presenting sustainability-related information under the Accounting Directive as amended by the CSRD (draft ESRS 1);
    - General disclosures that apply to all undertakings regardless of their sector of activity (i.e. sector agnostic) and apply across sustainability topics (draft ESRS 2);
- topical standards, which cover a specific sustainability topic from a sector-agnostic perspective – that is disclosure requirements relating to sustainability impacts, risks and opportunities that are considered to be potentially material for all entities, regardless of the sectors they operate in. Topical standards cover:
    - environment (climate change, pollution, water and marine resources, biodiversity and ecosystems, resource use and circular economy);
    - social (own workforce, workers in the value chain, affected communities, consumers and end-users); and
    - governance (business conduct).

Following the comments received to its EDs, EFRAG made some extensive changes to its initial proposals. These include the following:

- the number of standards has been reduced from 13 to 12 with the requirements from the exposed draft standard on governance, risk management and internal control having been incorporated in draft ESRS 2;

- the draft ESRS now follow the same structure as the Exposure Drafts of the International Sustainability Standards Board (ISSB), which uses content elements of Governance – Strategy – Risk Management – Metrics and Targets consistent with the pillars used by the Task Force on Climate-related Financial Disclosures (TCFD);
- adaptions have been made to address the double materiality principle and to enhance interaction between the general disclosures and the topics specified in CSRD that ESRS have to cover;
- the draft ESRS have been updated to respond to the CSRD requirement that the EC shall to the greatest extent possible take account of the work of global standard-setting initiatives for sustainability reporting, including in respect of definitions such as financial materiality and value chain, and wording of disclosure requirements;
- the proposal for a rebuttable presumption that all mandatory disclosure requirements specified by ESRS are material and, therefore, justify a full disclosure in accordance with the relevant ESRS, has been removed;
- in respect of meeting CSRD and other legislative requirements, certain information is required to be disclosed irrespective of the outcome of the materiality assessment;
- the number of disclosure requirements and qualitative and quantitative datapoints has been reduced;
- many disclosure requirements have been made subject to a phase-in period, meaning they will have to be reported only one, two or three years after companies are brought into scope of mandatory reporting under CSRD. Reporting that requires obtaining data from across the value chain will not be required for the first three years (during which time undertakings are required to use in-house data to provide insights on their value chain), except when value chain data is needed to enable users to comply with the requirements of other pieces of EU legislation.

The reporting requirements will be phased in over time for different kinds of companies as stipulated by CSRD. The first companies will have to apply the standards (delegated act adopted by the European Commission) in financial year 2024, for reports published in 2025. Listed SMEs are obliged to report as from 2026, with a further possibility of voluntary opt-out until 2028, and will be able to report according to separate, proportionate standards that EFRAG will develop next year.

Before adopting the ESRS through delegated act, the European Commission must now consult:

- the Member State Expert Group on Sustainable Finance and the Accounting Regulatory Committee,
- the European Environment Agency, the European Union Agency for Fundamental Rights, the European Central Bank, the Committee of European Auditing Oversight Bodies and the Platform on Sustainable Finance; and
- ESMA, EBA and EIOPA.

These opinions should be provided within two months from the date of receipt of the request from the Commission. [ESMA](), [EBA]() and [EIOPA]() issues their opinion on 26 January 2023.

Next steps

EFRAG is now working on future ESRS sector-specific standards, which prescribe disclosure of information relating to sustainability risks, impacts and opportunities that are considered to be potentially material for all entities operating in a given sector.

In addition, EFRAG is working on proportionate standards for listed SMEs (article 29c CSRD) (LSME Standard), and on a recommendation to develop a Voluntary Sustainability Reporting Standard for non-listed SMEs (VSME Standard).

LATEST DEVELOPMENTS ON ENDORSEMENT STATUS REPORT

In order to become binding law in the European Union, IFRS Accounting Standards must be 'endorsed' through the publication of a Commission Regulation in the Official Journal of the European Union. The most recent EFRAG endorsement status report is included below. It is frequently updated on the EFRAG website.

IASB/IFRIC documents not yet endorsed: [Revisions to this schedule are marked in bold and steps marked in green have been completed]	EFRAG draft endorsement advice	EFRAG endorsement advice	ARC Vote	When might endorsement be expected	IASB Effective date	Endorsement expected before the effective date
IFRS STANDARDS[1] AND INTERPRETATIONS						
AMENDMENTS						
Amendments to IAS 1 *Presentation of Financial Statements*: • Classification of Liabilities as Current or Non-current Date (issued on 23 January 2020); • Classification of Liabilities as Current or Non-current - Deferral of Effective Date (issued on 15 July 2020); and • Non-current Liabilities with Covenants (issued on 31 October 2022)	√ 22/12/2022				01/01/2024	▲
Amendments to IFRS 16 *Leases:* Lease Liability in a Sale and Leaseback (issued on 22 September 2022)	**√ 10/11/2022**	**√ 30/01/2023**			**01/01/2024**	▲

OPEN CONSULTATIONS

Title and description	Closing date
Academic study on the effects of IFRS 15 *Revenue from Contracts with Customers*	TBD
EFRAG Draft Comment Letter on the IASB's ED/2023/1 International Tax Reform – Pillar Two Model Rules	27 February 2023
EFRAG's Draft Endorsement Advice on amendments to IAS 1 *Presentation of Financial Statements*	1 March 2023
Academic Study cosponsored by EFRAG and ICAS *The Theory and Practice of Discounting in Financial Reporting under IFRS*	31 March 2023
EFRAG Discussion Paper *Accounting for Variable Consideration from a Purchaser Perspective*	31 May 2023

For more information, please see EFRAG's consultations page.

STAY INFORMED

EFRAG WEBSITE

EFRAG's website has now a section dedicated to users: the *user corner*. This section is addressed to users of corporate reporting. It is regularly updated with information on EFRAG activities relevant to users. We invite you to visit our user corner and share the webpage with your contacts. For a broader range of information, you can as well register to our webpage and receive regular news items on EFRAG's work.

EFRAG on social media

In a constant effort to serve the European public interest, in the most transparent way, EFRAG also shares information on its activities on three social media platforms:

: @EFRAG_Org

: EFRAG

: European Financial Reporting Advisory Group (EFRAG)