

Work Plan for Research Project

The objective of the session

- 1 Following the completion of the EFRAG Research agenda consultation, three topics have been tentatively identified as additions to the EFRAG Research agenda:
 - (a) Better Information on Intangible Assets;
 - (b) Crypto Assets; and
 - (c) Variable and Contingent Payments.
- 2 The objective of the session is to discuss a work plan for each topic and ask the EFRAG Board to formally add the topics to the EFRAG Research agenda.
- 3 For each topic, the paper discusses the following:
 - (a) Why EFRAG is undertaking the project;
 - (b) Which parties will be involved in the project;
 - (c) Data collection and other evidence;
 - (d) Proposed timetable and output; and
 - (e) Proposed consultation process.

Better Information on Intangible Assets

Why is EFRAG undertaking the project?

Description of the issue

- 4 There has been a lot of debate lately about how financial reporting does not provide a full picture of the value drivers of businesses. Internally-generated intangibles such as know-how, market share, assembled workforce, research and so on play an ever-increasing role in the performance of entities, but are not recognised in the IFRS financial statements.
- 5 However, there are a number of challenges around recognition and measurement of these intangibles. Assessment of control is judgemental, especially at an early development stage, and future benefits are highly variable. Historical cost may have little relevance and current value would be mostly based on unobservable inputs, since there is little or no active market for most intangibles (most intangibles) and they may be not tradeable separately.
- 6 A number of initiatives (Integrated Reporting, the World Intellectual Capital/Asset initiative) have already taken steps to improve the reporting in this area. An important part of the Project is to investigate and leverage from those other initiatives for financial reporting.

Objective of the Project

- 7 The Project aims to develop alternatives to provide more relevant information on intangible assets in financial reporting. To reach this objective, in the preliminary analysis, the EFRAG Secretariat will consider recent articles and publications provided by known global business, economic, and accounting networks, publishers, and advisers and, following this analysis, relevant academic papers.

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The EFRAG Secretariat will also collect data on:

- (a) Consideration and allocation thereof in acquisitions of intangible-intensive companies;
 - (b) Comparison of ROCE and similar ratios for different industries and jurisdictions; and
 - (c) The gap between market valuations and carrying amount of equity in different industries.
- 8 The aim of the project is not however to change accounting requirements with the view so that the accounting equity is aligned to market prices.
- 9 Following the initial analysis described in the paragraphs above, the project aims to analyse what the users' information needs on intangible assets are and, in particular, it will:
- (a) Address a number of aspects in relation to internally-generated intangibles including a categorisation and description of the different types of assets (marketing, technological, social, reputational, or human capital) and how their different features are relevant in terms of financial reporting;
 - (b) Investigate how to consider uncertainties that exist both in relation to the entity's ability to access future benefits and their amount and timing:
 - (i) aspects related to intangible assets that cannot be protected legally, or can be duplicated by competitors;
 - (ii) existing entry barriers for usage of intangible assets regarding the reach of such intangibles and the increased reach boost effect of cumulative benefit. Intangibles have a bigger potential for failure in their development phase but also present a different pattern of their marginal utility, since increased use does not lead to higher consumption;
 - (iii) spill overs relating to increase in benefits from other entity's assets when developing new intangibles.
 - (c) Develop metrics to express earnings potential and value. These metrics may not be fit as a measurement basis but could be used to disclose information in the notes to the financial statements.
- 10 Initially, the focus of the project will not be to debate recognition and measurement versus disclosure in the notes. This may be considered at a later stage.
- 11 Moreover, the EFRAG Secretariat will not specifically focus on the initial recognition and measurement of intangible assets in a business combination.

Scope of the Project

- 12 Initially, EFRAG Secretariat will consider the entire population of assets that would meet the definition of intangible assets under IFRS. At a later stage, we may consider limiting the scope or differentiating requirements for different types of intangibles.

Which parties will be involved in the project

Involvement of EFRAG Working Groups

- 13 To acquire input for different steps of the research, the EFRAG Secretariat considers involving the following EFRAG Working Groups:
- (a) EFRAG User Panel – to collect input on users' information needs regarding intangible assets;

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- (b) EFRAG Academic Panel – to collect information regarding recent developments in the academic researches and publications regarding intangible assets;
 - (c) European National Standard Setters (NSS) – to collect information regarding local disclosure requirements, either existing or in development;
 - (d) EFRAG TEG – to discuss alternative solutions to the identified problems.
- 14 If possible, some of the solutions could be tested with the European Corporate Reporting Lab.

Setting up an Advisory Panel

- 15 At this stage, the EFRAG Secretariat does not propose setting up a dedicated Advisory Panel.
- 16 Nevertheless, we plan to contact individuals and organisations with specific knowledge in the topic, as described below.

Involvement of other parties

- 17 The EFRAG Secretariat considers contacting individuals and organisations that in our opinion would have the specific knowledge concerning development of the, and the risk associated with the benefits obtained from, intangible assets. This list would include:
- (a) Entrepreneurs on the intangible asset intensive businesses e.g. internet trade companies or social network platform;
 - (b) Lawyers specialising in legal protection of intangibles;
 - (c) Individuals and preparers that develop or trade brands, trade-marks, logos, mastheads, etc.;
 - (d) Website developers.
- 18 We also plan to engage the IVSC on the challenges and practices regarding professional valuation of different categories of intangible assets.

Data collection and other evidence

Data collection

- 19 The EFRAG Secretariat plans to collect quantitative data relevant for intangible assets financial analyses and check the increase in intangible assets' relevance (e.g. referring to dot com bubble).
- 20 Furthermore, the EFRAG secretariat will collect quantitative data to analyse ROCE figures and consideration paid and relative allocation in a number of acquisitions.

Relevant literature and references

- 21 Initially, the EFRAG Secretariat plans to perform a qualitative analysis based on recent articles and publications provided by known global business, economic, and accounting networks, publishers, and advisers. The analysis will allow us to better understand the topic and the discussions on the new nature of resources that do not fit the way accountants think about intangible assets We will assess the actual differences and the ways to manage such assets. The source of information will include:
- (a) WICI network;
 - (b) ACCA network;
 - (c) Harvard Business Review;

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- (d) McKinsey Institute;
 - (e) Accountancy Europe and its Technology Hub initiative;
 - (f) The International Integrated Reporting Council;
 - (g) The IVSC and its valuation standards on intangibles;
 - (h) CFA Institute.
- 22 We also propose to call for an external academic literature review / summary, limited to studies published in the last 10-15 years.

Proposed timetable and output

- 23 The project will be approached in two phases. EFRAG TEG will be regularly updated on the status and consulted to recommend the next activities.
- 24 During the first phase, the EFRAG Secretariat proposes to perform the activities listed in paragraphs 9(a) and 9(b), which will result in gathering information in order to formally define the problem. Tentatively, the EFRAG Secretariat estimates that the first phase will take approximately 18 months.
- 25 The activities listed in paragraph 9(c) would form the second phase, which would result in providing the solution to the defined problems. The second phase should be finalised in the following 12 months.
- 26 The table below illustrates the proposed timetable for the project.

Proposed consultation process

- 27 At this stage, we do not envisage other consultation process.
- 28 However, the EFRAG Secretariat will reconsider necessity to collect input from constituents through providing presentations at international fora such as CFSS, IFASS or ASAF, organising outreaches, public events, individual presentation to organisations or working groups, and academic events.

Question for the EFRAG Board

- 29 Does the EFRAG Board approve adding a project on *Better Information on Intangible Assets* to the EFRAG Research agenda?
- 30 Does the EFRAG Board have comments or suggestions on the proposed work plan for the Research project on *Better Information on Intangible Assets*?

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Phase I						Phase II				
IV Q 2018	I Q 2019	II Q 2019	III Q 2019	IV Q 2019	I Q 2020	II Q 2020	III Q 2020	IV Q 2020	I Q 2021	
Review of relevant material										
Call for application for literature review										
		Academic literature review								
			Analysis of the metrics							
				Drafting of 1st phase						
		Interviews with other parties								
						Development of alternative metrics / disclosures				
								Drafting the DP		

Crypto Assets

Why is EFRAG undertaking the project?

Description of the issue

- 31 A cryptocurrency is a virtual or digital currency and refers to a form of exchange that does not exist in physical form. It is not linked to any physical currency, does not have a central repository nor is it typically backed by any government or central bank. It is generally held for capital appreciation or in limited cases (and in some jurisdictions) as a means for exchange.
- 32 The accounting treatment of cryptocurrencies under IFRS Standards is unclear. They may not qualify as financial assets, as they neither represent a right to receive cash or other financial instruments, nor a contract to exchange assets. They may qualify as intangible assets, but they are not legally protected and have no useful life. It is also debatable that the measurement requirements in IAS 38 would provide relevant information – and the impairment issue would need to be addressed.
- 33 Cryptocurrencies make it easier to transfer funds between two parties in a transaction and are typically based on the blockchain technology. They are initially 'mined' but could subsequently be bought, exchanged, awarded, or granted. Mining cryptocurrencies is a specialised activity and the accounting for such activities warrant further research. There are a number of potential options to account for them and diversity has already emerged in practice under different GAAP's and potentially under IFRS.
- 34 Cryptocurrencies including initial coin offerings (ICO's) are undergoing rapid growth and developments, although they are also subject to extreme price volatility. ICO's are gaining increasing attention from investors, businesses and regulators, and are popular because of the ease with which they can be used to obtain public funding with less complexity and greater speed than traditional methods.
- 35 The Canadian Securities Exchange (CSE) announced in February 2018 the launch of a securities clearing and settlement platform based on the Ethereum Blockchain that allows companies to raise capital with security tokens. Some established exchanges have launched bitcoin futures.
- 36 Some European countries have discussed initiatives to facilitate the blockchain technology. However, there is also a view that global cryptocurrency regulation is necessary. Some claim that cryptocurrencies appear as a threat to the long-term financial stability.
- 37 The objective of the project would be to assess whether the current IFRS Standards could be used to account for digital assets or whether a new accounting model should be developed to cater for the specific characteristics of this type of virtual currency.
- 38 Another aspect could be to assess whether the measurement basis should be the same for all digital assets held or whether different bases may be justified based on the business model or purpose and based whether an active market exists.
- 39 A third aspect could be to investigate the accounting implications, including disclosure, of specific activities linked to digital assets such as held by an entity on its own behalf versus on behalf of others, mining and Initial Coin Offerings.

Scope of application

- 40 The previous paragraphs refer indistinctly to cryptocurrencies, crypto assets or digital assets. However these terms have a different meaning, and different types of digital assets are held for different purposes.

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- 41 The EFRAG Secretariat suggest that the focus of the project should be on cryptocurrencies (the most popular being Bitcoin and Ethereum) that are generally meant to be a medium of exchange; and tokens, which are designed to support a more specific use of the distributed ledger technology.

Interaction with IASB activities

- 42 In July 2018, the IASB discussed whether to add a project on cryptocurrencies to its work plan or research pipeline. The Board decided it did not have sufficient information to reach a conclusion and is now consulting the IFRS Interpretations Committee on holdings of cryptocurrencies and ICOs. Possible ways forward include the development of a specific Standard, the inclusion of crypto currencies in the scope of an existing Standard or delaying activity and consult constituents in the context of the next Agenda consultation.

Which parties will be involved in the project

Involvement of EFRAG Working Groups

- 43 The EFRAG Secretariat expects to involve in the discussion of the issues the EFRAG User Panel and the Financial Instruments Working Group.

Setting up an Advisory Panel

- 44 The EFRAG Secretariat suggests setting up an Advisory Panel. We consider that a reasonable understanding of the legal and regulatory aspects as well as the technical features of the different assets is needed to develop relevant accounting guidance. Panel members should include preparers, users, accountants, lawyers, IT specialists and market experts. It would also be helpful to reach out to regulators.

Involvement of other parties

- 45 Based on the replies to the Research agenda consultation, there is considerable interest among European Standard Setters for research on this topic. The EFRAG Secretariat understands that some of them are considering developing guidance in their local GAAP. We suggest to reach out to CFSS members and invite them to cooperate with EFRAG on the project. We could also offer them to take part in the Advisory Panel.

Data collection and other evidence

Data collection

- 46 The EFRAG Secretariat does not consider that collecting accounting data, such as the amount of crypto currencies held by European entities, would be helpful in developing possible solutions. Other information such as the volume of exchanges of crypto currencies should be available from existing publications. Therefore, we do not plan any data collection activity.

Relevant literature and references

- 47 The EFRAG Secretariat does not suggest to outsource an academic literature review. The topic is relatively new and it is unlikely that there are significant studies on the financial reporting for cryptocurrencies or digital assets.
- 48 There is instead relevant material from Standard Setters:
- (a) In December 2016, the Australian ASB published a paper *Digital currencies: a case for standard-setting activities*, assessing cryptocurrencies against different type of assets in the IFRS literature;

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- (b) In March 2018, the Accounting Standards Board of Japan issued the *Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act*. The Standard addresses the accounting for virtual currencies, except for those that were issued by the entity itself (including its parent, subsidiaries and affiliates). The Standard includes requirements that apply to an entity that holds virtual currencies on its own behalf as well as a virtual currency dealer that holds virtual currencies on behalf of its customers;
 - (c) In May 2018, the Authority of Audit, Accounting, Property valuation and Insolvency management of Lithuania published the *Accounting Guidelines on Cryptocurrency and Tokens*;
 - (d) Also in May, the CPA Canada published the paper *An Introduction to Accounting for Cryptocurrencies*. This publication addresses the accounting for holdings of cryptocurrencies acquired from third parties. The accounting by entities which mine cryptocurrency or undertake initial coin or token offerings is not addressed in this paper.
- 49 Additionally, accounting firms have issued publications to provide possible guidance on the reporting of cryptocurrencies and digital assets.

Proposed timetable and output

- 50 The EFRAG Secretariat expects that the Research should take approximately 12-15 months to complete. The expected output of the Research will be a Discussion Paper.

Proposed consultation process

- 51 The EFRAG Secretariat considers that most of the input will be from the Advisory Panel participants, the EFRAG Working Groups and the respondents to the Discussion Paper.

Question for Board	
52	Does the EFRAG Board approve adding a project on <i>Crypto Assets</i> to the EFRAG Research agenda?
53	Does the EFRAG TEG/ Board have comments or suggestions on the proposed work plan for the Research project on <i>Crypto Assets</i> ?

October	November	December	January	February	March
2018			2019		
Advisory Panel appointed					
Review of relevant material					
			Analysis of different crypto assets		

Variable and Contingent Payments

Why is EFRAG undertaking the project?

Description of the issue

- 54 In many transactions, the exchange price is not a fixed amount but can vary in relation to financial and non-financial factors. Recent IFRS Standards such as IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* have developed specific requirements on the recognition and measurement of variable and contingent payments. However, the guidance across IFRS Standards is neither comprehensive nor consistent.
- 55 The IFRS Interpretation Committee debated a submission about initial recognition and subsequent measurement of variable payments on the acquisition of tangible and intangible assets. Eventually in March 2016 the Committee concluded that the issue was too broad to address within the confines of the existing IFRS and referred the issue to the IASB.
- 56 In the 2015 Agenda Consultation, the IASB suggested variable and contingent payments as a possible project. Eventually it was considered to add it to the research pipeline. The project may also look into risk-sharing features and participation agreements.

Scope of application

- 57 The objective of EFRAG's project should be to:
- (a) Identify the accounting issues around variable and contingent payments;
 - (b) Outline what are the information needs for users of financial statements in regards to variable and contingent payments based on the objectives of general purpose financial reporting as stated in the IASB's revised *Conceptual Framework for Financial Reporting* and consultation with the EFRAG User Panel;
 - (c) Summarise and compare the guidance across different Standards and assess the rationale (or lack thereof) for difference in the requirements;
 - (d) Develop a number of accounting alternatives and illustrate the relevant strengths and limitations; and
 - (e) Consider improvements in presentation and disclosure.
- 58 One important aspect would be the scope definition. A fixed selling price per unit results in a total amount variable upon the number of units sold. This would not qualify for the scope of the project, however, the distinction may not always be clear.
- 59 Also, it may be useful to define a scope in reference to only certain classes of transactions. For instance, variable and contingent employee benefits (long-term bonus, post-retirement benefits, share-based payments with vesting conditions) pose specific issues.
- 60 The outcome of the research project should be a discussion paper with a 120 days comment period.

Issues to be considered

- 61 The project would need to consider the following issues:
- (a) When variable and contingent payments are initially recognised (and/or reflected in the measurement of related assets or liabilities). Variable and contingent payments may be reflected in the financial statements when:
 - (i) The underlying transaction is initially recognised;

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- (ii) Their likelihood exceeds a defined recognition threshold; or
- (iii) They become due under the terms of the underlying transaction.

An early reflection would make users aware of their existence and provide information on the variability of future cash flows, but could lead to remeasurement and reversals, which users previously seem to have thought should be avoided in relation to revenue from contracts with customers.

- (b) How variable and contingent payments should be measured. If variable and contingent payments are reflected in financial statements before they become due, they need to be measured at an estimated amount. This could, for example be fair value, expected value or most likely outcome.
- (c) Whether, and if so, when variable and contingent payments should be re-measured. If variable and contingent payments are reflected in the financial statements before they become due, their estimated amount may change over time. While measurement at fair value may mean that the estimate is continuously updated, measurement at, for example, most likely outcome may require guidance on whether, and if so, when, the estimate should be updated and what factors the update should reflect. For example, IFRS 16 requires to re-assess the likelihood of exercising an option to extend only for changes in factors other than market prices.
- (d) How to account for re-assessments. Variable and contingent payments may be linked to the purchase of assets. If they are re-measured before the assets are derecognised or fully depreciated, it should be assessed if or when then re-measurement should affect the carrying amount of the asset or be charged to profit or loss.
- (e) Whether all variable and contingent payments should be accounted for similarly. Payments could vary or be conditional on different factors: performance or output of the asset, changes in market prices and other events. Some of these factors are under the control of the management and others are not. The project should investigate if these differences should give rise to different accounting. Different accounting could also arise if users are sensitive to some re-measurements (e.g. downward adjustments to revenue) but not to other re-measurements.

Which parties will be involved in the project

- 62 The EFRAG Secretariat does not consider it beneficial to set up a special working group for the project. The EFRAG Secretariat assesses that there would not be a group of specialists in variable and contingent payments the project could benefit from assembling. EFRAG TEG will be involved in the discussions and the EFRAG User Panel will be consulted on specific issues (e.g. on whether all contingent and variable payments should be accounted for similarly).

Involvement of other parties

- 63 National Standard Setters are invited to participate in the project as partners. The EFRAG Secretariat also aims to establish a formal or informal exchange of information with National Standard Setters working on similar projects and with the IASB.

Data collection and other evidence

Data collection

- 64 While variable and contingent payments are frequently used in many industries, it seems difficult to obtain aggregated quantitative information. It is unlikely that databases containing financial statements information include information on variable payments that could be used to determine the frequency and magnitude of these payments. Some data could, however, be available on the use of contingent payments in lease arrangements.
- 65 It is similarly unlikely that there is much academic literature available that could provide insights on how variable and contingent payments are best accounted for. However, there will be some studies that, for example, could provide some general indications on when recognising items in the financial statements may be most useful.

Other evidence

- 66 Evidence could be collected by:
- (a) Inviting constituents to submit real-life examples of variable and contingent payments;
 - (b) Consulting the EFRAG User Panel;
 - (c) Public consultations;
 - (d) Reviewing a sample of financial statements; and
 - (e) Speaking to the technical departments of large accounting firms about common types of variable and contingent payments.
- 67 As the purpose of the project is to facilitate a discussion on the topic rather than suggesting a solution to the issue, collection of evidence suggested in (a), (d) and (e) above may be limited to obtain reasonable assurance that commonly found variable and contingent payments are covered.

Relevant literature and references

- 68 The IFRS Interpretation Committee has already considered variable and contingent payment issues, and the papers prepared in that regard should be consulted.
- 69 In addition, the IASB staff has previously prepared a paper on arguments in favour and against different methods to account for uncertainty (i.e. whether and when the most likely outcome or expected value would provide the most useful information).
- 70 In addition to this, the following material will be consulted:
- (a) Work performed on the role of measurement uncertainty in the context of the revised IASB *Conceptual Framework for Financial Reporting*;
 - (b) Academic journals;
 - (c) Accounting textbooks;
 - (d) Accounting manuals of large firms;
 - (e) Accounting standards;
 - (f) Accounting literature inside and outside Europe.

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Proposed timetable and output

71 Although some initial work on the topic would be done as soon as the work plan has been approved, the EFRAG Secretariat will focus on first finalising EFRAG’s project on accounting for certain types of pension plans before accelerating the progress on a project on variable and contingent payments. Significant resources will therefore not be allocated to the project until Q1 2019. However, as the project does not require meetings of specialised working groups or advisory panels and as the collection of evidence is limited, it is expected that a discussion paper can be published in early 2020.

Proposed consultation process

72 In addition to collecting input from constituents through the replies to the discussion paper, the EFRAG Secretariat suggests presenting the discussion paper at international fora such as CFSS and ASAF.

Question for EFRAG TEG/ Board	
73	Does the EFRAG Board approve adding a project on <i>Variable and Contingent Payments</i> to the EFRAG Research agenda?
74	Does the EFRAG TEG/ Board have comments or suggestions on the proposed work plan for the Research project on <i>Variable and Contingent Payments</i> ?

Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Review of relevant material					
Discussion of scope and content with EFRAG					
		Drafting of the paper and approval			
				Target publication	