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EFRAG Research activities

Research activities update

Objective

- 1 The objective of this session is to provide a short update on status of the various EFRAG Research projects.
- 2 This paper does not cover the EFRAG Research project on Pension Plans with an Asset-Return Promise. The EFRAG Board will be asked to approve the Discussing Paper for publication in another session in today's meeting.

Research project – Non-Exchange Transfers

- 3 The comment period on the EFRAG Discussion Paper *Non-Exchange Transfers – a role for societal benefit?* ends on 30 April.
- 4 The EFRAG Discussion Paper was presented at the IFASS meeting in Buenos Aires. We do not anticipate any additional outreach events.

Research project – Equity instruments: Research on Measurement

- 5 Following the discussion at the EFRAG Board meeting in February, the EFRAG Secretariat has developed a draft questionnaire for public consultation that includes a number of examples of transactions that may be perceived as long-term investments. EFRAG TEG provided comments and input on the draft questionnaire which is currently being revised.
- 6 The EFRAG Secretariat has also developed an EFRAG Secretariat background paper to accompany the questionnaire. The EFRAG Secretariat background paper is mostly based on the version of the EFRAG DP which was presented to the EFRAG Board in February, with a more expanded discussion on the nature of the interaction between the requirements in IFRS 9 *Financial Instruments* for equity instruments and the public policy objective.
- 7 The revised version of the questionnaire will be submitted to the EFRAG Board for approval in a written procedure. The EFRAG Secretariat suggests a 60-days period for the public questionnaire.
- 8 We also envisage a number of outreach events. An invitation has already been received from Accountancy Europe to meet its IFRS 9 Task Force in order to present the questionnaire and the research project in general. The EFRAG Secretariat will develop an outreach plan, which will need to take into consideration the constraints of the deadline.
- 9 We remind the EFRAG Board that the input from the questionnaire is meant to provide additional information to complement the information previously collected via:

- (a) the consultation to collect financial information on existing investment in equity instruments (July 2017) and the related report on the findings (January 2018);
- (b) the Discussion Paper issued to obtain views on recycling and impairment for equity instruments carried at Fair Value through Other Comprehensive Income ('FVOCI') (March 2018) and the analysis of the responses (August 2018); and
- (c) the academic literature review on the potential effects of IFRS 9 on long-term investment (March 2018).

Research project – Better Information on Intangible Assets

- 10 In accordance with the work plan, the initial phase for the project has included interviews with different thought leaders in order to understand the current trends in the contribution of intangibles to the performance and reporting of intangible assets. A total of 16 interviews have been conducted, with a good mix of academics, preparers, users, valuers and other professionals.
- 11 These interviews were not focused on the accounting treatment of intangibles but had a broader objective to discuss whether there was an information gap and how this gap could be addressed.
- 12 Mixed views have been expressed during the interviews. There is a degree of consensus that the role of intangibles has significantly grown in importance and that information about these intangibles is lacking in the primary financial statements. Some suggested that the accounting requirements for intangibles needed to be amended to fill part or all of the information gap. Some suggested alternatives such as expanded disclosures about unrecognised intangibles or providing information on 'strategic' intangibles through a separate 'statement'.
- 13 However, others have pointed out that there are a number of challenges in providing expanded information on intangibles, including the reluctance of preparers to provide proprietary information. Preparers may also be reluctant to provide expanded information on expenditure on research and development, for fear of being judged negatively if those projects were to be abandoned.
- 14 We have selected the academic team that will conduct the literature review. A kick-off call with the team was held to agree the process. Since the original application deadline was slightly extended, it is now expected that the literature review will be finalised by the end of September.

Research project – Crypto Assets

- 15 At its meeting in February 2019, EFRAG TEG had a first discussion on the scope and project plan for EFRAG's Research project on Crypto-assets.
- 16 EFRAG TEG supported the proposed two-phase approach and agreed that the first phase - problem definition – should examine the use, prevalence and trends of crypto-assets in a broader sense and whether crypto-assets and related activities give rise to accounting challenges that are not addressed in existing IFRS Standards. The first phase will examine the activities affecting crypto-assets such as mining, initial coin offerings, holding and investing, payment and custodial services.
- 17 The evidence gathered during the consultation on the discussion paper developed during the first phase could inform an updated scope and identify the areas where EFRAG could contribute to the potential formulation of accounting solutions.
- 18 In addition, EFRAG TEG members suggested examining whether the issues that arise in accounting for crypto-assets could have broader implications. These implications include analogous areas of IFRS Standards that are lacking in guidance such as certain types of investment (such as commodities), emission rights and

rights arising from loyalty programmes and similar schemes. Although EFRAG TEG members acknowledged that the EFRAG Research project was at an early stage, they suggested that it was worth considering whether crypto-assets were different from these other assets for which IFRS Standards provide no guidance.

- 19 As part of the evidence gathering, the EFRAG Secretariat is reviewing the work of National Standard Setters, academic literature and documents issued by regulatory bodies. The EFRAG Secretariat has held a meeting with experts from one of the accounting firms. An Advisory Panel is not being constituted for the first phase, but will be considered in developing the potential second phase of the project.
- 20 The EFRAG Secretariat is working towards developing a first draft of a discussion paper with a preliminary target date of completion within the second half of 2019.

Research project – Variable and Contingent Consideration

- 21 The EFRAG Secretariat held a number of conference calls with experts from accounting firms to collect information on types of variable and contingent consideration frequently found in practice and receive input on the possible scope of the project. We also reviewed the publications issued by accounting firms.
- 22 The EFRAG Secretariat has already presented a paper with simple illustrative examples to collect initial views from the User Panel and EFRAG TEG.
- 23 The next step will be a comparative analysis of the guidance in IFRS Standards, with a view to understanding if there are different approaches and the underlying rationale of those approaches. This analysis will be shared with EFRAG TEG and will form the basis of a conceptual model for variable and contingent consideration.

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| Question for the EFRAG Board |
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| <ol style="list-style-type: none">24 Does the EFRAG Board have any comments on the developments in the EFRAG Research activities? |
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