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EFRAG Research Activities Update

Objective

- 1 The objective of this session is to provide the EFRAG Board with the regular update on the main research activities undertaken in the EFRAG research program. The projects included in this update are:
 - (a) Pension plans with an asset-return promise;
 - (b) Better information on intangible assets;
 - (c) Crypto assets; and
 - (d) Variable and contingent consideration.

Pension plans with an asset-return promise

- 2 EFRAG published the discussion paper *Accounting for Pension Plans with an Asset-return Promise* on 15 May 2019. The discussion paper considered three different alternatives to account for defined benefit pension plans under which the benefits depend on the return on plan assets. Although the pension benefits under these plans will depend on the return on plan assets, this linkage is not reflected when applying the requirements in IAS 19 *Employee Benefits*, as the pension obligation and the plan assets are measured differently.
- 3 The paper was presented at the July 2019 meeting of the Accounting Standards Advisory Forum. Also, the paper attracted attention in a magazine for the pension industry.
- 4 The deadline for comments on the discussion paper was 15 November 2019. EFRAG received 13 comment letters.
- 5 EFRAG TEG considered the comments received in response to the discussion paper and EFRAG's feedback statement at its 4 – 5 March 2020 meeting. Of the three alternatives suggested, respondents particularly favoured one of these, if a narrow scope amendment should be made to IAS 19. Some respondents, however, suggested that nothing should be done, as practical solutions had developed in some jurisdictions.
- 6 EFRAG TEG members noted that the IASB is now examining whether an amendment to IAS 19 in line with the approach favoured by the respondents should be introduced. It was accordingly assessed that the IASB had taken over where the EFRAG research project had ended and no further activities of EFRAG should be performed on the project.

Better information on intangible assets

- 7 The aims of the project are:

- (a) to explain how entities report on creating, maintaining and/or improving their value;
 - (b) to explain how users consume information on creating, maintaining and/or improving value, and the extent to which current reporting addresses their needs; and
 - (c) to provide suggestions on how information on creating, maintaining and/or improving value can be provided in financial reports in a manner that is useful for decisions on providing resources to the entity.
- 8 The project will focus on information that will be relevant for providers of economic resources and for assessing stewardship (investors' information needs). Information needs of the broader society (N.G.O., customers, etc.) will be out of scope.
- 9 The project will include in its scope recognition and measurement of intangible assets and disclosures about intangibles (and what affect these) in the notes to the financial statements and in the management commentary. Intangibles is used as a broader term than intangible assets and would include resources that are not controlled by the entity.
- 10 In Q1 of 2019, the EFRAG Secretariat conducted 17 interviews with academics, preparers, users, valuers and other professionals. There was a degree of consensus that information about intangibles is lacking in the primary financial statements. However, interviewees expressed a range of views regarding possible solutions to the problem.
- 11 On 5 February 2020 EFRAG published a literature review on the reporting of intangibles.
- 12 In the update on EFRAG research activities presented at the November 2019 EFRAG Board meeting, it was mentioned that the next step in the project would be to establish panels of users and preparers to identify and discuss good examples and suggestions on how entities report / could report on their intangibles. The composition of this panel was approved at the 4 – 5 March 2020 EFRAG TEG meeting. The first meeting of the panel will take place on 27 March.
- 13 In collaboration with the UK FRC, two roundtables have been planned. One in Brussels on 28 April 2020 and one in London on 29 April 2020.
- 14 The EFRAG Secretariat plans to issue the following **deliverables**:
- (a) **Problem Description.** Describe the accounting issue on the basis of the gathered information. This part should be finalised by H2 2020.
 - (b) **Input for the EFRAG comment letter on the IASB's project on Management Commentary.** This input should be finalised by H2 2020 to be ready for the expected Exposure Draft in H2 2020.
 - (c) **Possible solutions.** Depending on the outcome of the panel discussions, research possible solutions to the identified problems. This phase is expected to result in a Discussion Paper in H2 2020. This phase will include limited testing of the proposals (mainly with the members of the Panel and selected outreaches).
 - (d) Depending on the outcome of the consultation on the Discussion Paper, further and more extensive testing will be done in 2021. **Testing:** testing the identified solutions on different entities including, if possible, testing with members of the task force of the European Lab@EFRAG. This phase is expected to be finalised in 2021 if it cannot be included in (c) above.

- 15 In the course of the research project, the EFRAG Secretariat plans to collaborate with the standard setters and organisations that have already published reports on intangibles. This includes collaboration with the UK FRC, KASB, and ICAS.

Crypto-assets

- 16 **Objective:** The EFRAG project on crypto-assets has the following objectives:
- (a) Provide both a problem definition and propose possible preliminary approaches and areas of focus in developing IFRS requirements. The problem definition aspect primarily outlines existing approaches and identifies issues related to accounting for crypto-assets whilst assessing factors that can justify the need for clarification of IFRS requirements. These factors include the significance of crypto-assets activities, related economic characteristics, rights and obligations, regulatory requirements, trends and potential market developments.
 - (b) The EFRAG project on crypto-assets had initially intended to focus on problem definition as a first phase (phase 1) to be followed by accounting solutions development (phase 2). However, the research findings and ongoing developments have prompted the EFRAG research focus to go beyond only initially focusing on the problem definition and to also formulate and propose next steps for IFRS development. Ongoing developments include: the issuance of related accounting guidance by several national standard setters and accounting firms; several notable market developments related to the next generation of crypto-assets and digital assets; and steps being taken at a European and global level to provide regulatory clarity and enhance related requirements. Therefore, in addition to the problem definition elements, the discussion paper that will be issued outlines the areas where IFRS clarification or enhancement may be needed and presents possible approaches that could be taken by the IASB towards either clarifying or further developing related IFRS requirements. The paper will also consider to what extent the areas for possible clarification of IFRS requirements show broader gaps than for crypto-assets.
 - (c) The discussion paper will aim to obtain constituents' feedback on possible areas for clarification or amendment of IFRS requirements and approaches that the IASB could follow. The discussion paper and constituents' feedback can inform the next IASB agenda consultation and the contents of a potential future IASB project.
- 17 **Scope:** The scope of the project covers the main categories of crypto-assets (cryptocurrencies and different types of tokens). Furthermore, the project includes the following crypto-assets related activities: issuers (e.g. ICOs); holders; and related services including custodial services and mining activities. The analysis of crypto-assets activities is focused on entities and not individuals.
- 18 **Deliverables:** The EFRAG project on crypto-assets is envisioned to have the following deliverables:
- (a) A discussion paper that combines the issuance and holding of crypto-assets as there are symmetrical considerations whilst assessing issuer and holder accounting issues (e.g. holder rights are typically issuer obligations for crypto-assets where there is a claim on issuer).
 - (b) If necessary, a second discussion paper may be developed at a later stage to address outstanding issues related to crypto-assets including more detailed analysis of accounting solutions.
- 19 **Progress:** The progress on different aspects of the project is outlined below:

- (a) *Desktop research:* During H1 2019, the project team conducted desktop research on different aspects of crypto-assets including: the prevalence of related activities amongst entities, current and potential market developments emergent national standard setter guidance and accountancy firm literature on accounting treatment, regulatory requirements across a selection of key global jurisdictions and an assessment of the unique economic characteristics, rights and obligations that can inform the accounting treatment of crypto-assets.
- (b) *Issues papers discussed with EFRAG TEG and EFRAG User Panel:* The project team presented a proposed project scope, project plan and timeline to EFRAG TEG at its meeting in February 2019. At the EFRAG TEG meeting in May 2019, the project team presented an issues paper on Initial Coin Offerings (ICOs) and custodial services and an issues paper on the holders' perspective at the September 2019 EFRAG TEG-CFSS meeting. The three meetings provided suggestions to help focus on accounting implications arising from crypto-assets (e.g. consideration of accounting for analogous transactions such as commodities, barter transactions) and supported a focus on understanding of the underlying rights and obligations arising from crypto-assets. The project scope and outline of the project objectives were also presented to the EFRAG User Panel in December 2018.
- (c) *Outreach to experts:* During Q4 of 2019, the project team conducted outreach to crypto-assets experts including those who had responded to a public call made in September 2019. Outreach feedback was obtained from 25 respondents who took part in telephone interviews and/or provided written feedback to a comprehensive questionnaire that was developed to obtain structured feedback. The expert respondents had diverse functional backgrounds from different types of organisations and were from 13 different countries including some leading markets (Canada, France, Hong Kong, Japan, Luxembourg, Switzerland, UK and US). The outreach was intended to validate the project team findings contained in the issue papers presented to EFRAG TEG and EFRAG CFSS and to fill gaps in aspects that were difficult to ascertain from desktop research. The outreach findings have to a large extent confirmed the project team findings, and identified relevant country-specific regulations and market developments. The key findings from the outreach were presented to EFRAG TEG in December.
- (d) *Consultancy support-* the project team worked with a subject-matter expert from a consultancy firm to further address issues that have not been adequately resolved by the desktop research and outreach interviews (e.g. outlining the rights and obligations of different crypto-assets and examples of unique economic characteristics that have accounting implications).
- (e) *Development of draft discussion paper:* A completed draft of the discussion paper has been presented to the EFRAG TEG at the January and March 2020 meetings. Key findings of the discussion paper were also presented to the EFRAG FIWG. Feedback and ideas for improvements to be made to the discussion paper from the EFRAG TEG and EFRAG FIWG have been reflected in the latest draft discussion paper. In addition, fatal flaw comments have been or will be received from subject matter experts in five influential organisations.

20 **Timeline of deliverables:** The following timeline is envisioned:

- (a) After obtaining and processing all the fatal flaw comments by mid-March 2020, the draft discussion paper will be presented to the EFRAG TEG for approval

at the March 25 meeting and, depending on TEG feedback, presented to the EFRAG Board for approval in either April or May 2020.

- (b) The next steps and decisions on any needed additional deliverables will be made after receiving constituents' feedback to the discussion paper.

Variable and contingent consideration

- 21 The objectives of EFRAG's project on variable and contingent consideration are:
- (a) to identify the accounting issues around variable and contingent consideration;
 - (b) to outline the information needs for users of financial statements in regard to variable and contingent considerations based on the objectives of general-purpose financial reporting in the IASB's *Conceptual Framework for Financial Reporting* and consultation with the EFRAG User Panel;
 - (c) to summarise and compare the requirements in IFRS Standards and assess the rationale (or lack thereof) for any differences;
 - (d) to develop a number of accounting alternatives and illustrate their relevant strengths and limitations; and
 - (e) to consider improvements in presentation and disclosure.
- 22 In order to identify accounting issues related to variable and contingent consideration, the EFRAG Secretariat organised conference calls with experts from accounting firms in the first part of 2019. The input received from these calls has subsequently been considered by EFRAG TEG.
- 23 In addition, possible relevant guidance in existing IFRS Standards, Interpretations (and IFRS IC agenda decisions) has been located. This guidance will be assessed and the rationale (or lack thereof) for any differences will be analysed.
- 24 EFRAG TEG has decided to start with a relatively narrow definition of variable and contingent consideration. It may at a later stage decide to broaden the definition.
- 25 The scope of the project has been compared with the scope of the FRC project on variable and contingent consideration. The scopes of the two projects are different and the projects can thus complement rather than compete with each other.
- 26 The timetable for the remaining activities related to the project is provided below.

Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Determine definition and scope				
		Consider differences in guidance and reasons for differences		
		Assessing users' information needs		
			Developing accounting alternatives	
				Consider presentation and disclosure
Drafting discussion paper				
				Issue discussion paper

- 27 Compared with the timetable presented for the November 2019 EFRAG Board meeting, the phase 'Considering differences in guidance and reasons for differences' will only start in Q2 of 2020 (and not in Q1). The delay has resulted from a high activity level on other projects the staff allocated to the project are working on.

Question for the EFRAG Board

- 28 Does the EFRAG Board have any comments on this update?