



EFRAG UPDATE

November 2022

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

The EFRAG General Assembly in January 2022 has approved the **revised EFRAG Statutes and EFRAG Internal Rules**, integrating the new Sustainability Reporting Pillar in EFRAG's organisational structure. From now on EFRAG Financial Reporting Board and EFRAG Financial Reporting TEG are indicated as 'EFRAG FRB/EFRAG FR TEG' and EFRAG Sustainability Reporting Board and EFRAG Sustainability Reporting TEG as 'EFRAG SRB/EFRAG SR TEG'.

PUBLICATIONS

Draft Endorsement Advice

On 11 November 2022, EFRAG issued a [draft endorsement advice letter](#) and a separate [invitation to comment](#) on the IASB's *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*. 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.

Comments from all interested stakeholders are requested **by 9 January 2023**.

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

WEBINARS AND ON-LINE OUTREACHES

Summary Report: Joint webinar on *Primary Financial Statements - What Are the Implications of the recent IASB decisions?*

On 29 November 2022, EFRAG has issued [a summary report](#) of the joint webinar on a selection of the IASB's tentative decisions to change the *ED General Presentation and Disclosures*, held on 15 November 2022 with representatives of preparers, users and auditors and the IASB. Panellists expressed their views on the selected IASB's tentative decisions, including the potential implementation and application concerns.

The recordings are available [here](#).

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



Summary reports: *Primary Financial Statements* roundtables

On 29 November 2022, EFRAG issued reports about feedback received from participants during the roundtables on the IASB's tentative decisions to change the Exposure Draft *General Presentation and Disclosures*.

In the roundtables, which were undertaken jointly with the IASB and in collaboration with national standard setters on [24 October, 2](#) and [4 November 2022](#), preparers discussed potential implementation and application concerns, potential additional guidance on specific topics and the efforts required to implement and apply the IASB's selected tentative decisions.

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

EFRAG - IASB online roundtable - What are the implications of the recent IASB decisions on *Primary Financial Statements*?

On 15 November 2022, EFRAG held an online roundtable in cooperation with the IASB where it discussed with preparers, users and auditors the implications of the IASB's latest tentative decisions on Primary Financial Statements.

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

EFRAG Conference "*Where is Corporate Reporting heading?*"

The EFRAG conference "Where is Corporate Reporting heading?" takes place on 7 December in hybrid format and has attracted over 2000 registrants.

To commemorate EFRAG's 21st anniversary and its ongoing role as the voice of Europe in shaping corporate reporting, three panels involving renowned subject matter leaders will debate new trends in the Environmental, Social, and Governance (ESG) revolution and the growing emphasis on the connectivity between sustainability and financial reporting

Mairead McGuinness, European Commissioner for Financial Stability, Financial Services and the Capital Markets Union, will be the keynote speaker. Pascal Durand, MEP (FR, Renew) and CSRD rapporteur, and Andreas Barckow, IASB Chair, will deliver a talk.

The conference will take place on Wednesday 7 December from 9:30 to 17:30 CET. The programme can be found [here](#).

Please register [here](#) for online participation.

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

CHANGES IN EFRAG GOVERNANCE STRUCTURE

EFRAG is glad to report on the admission and appointments in its governance structure decided in the EFRAG General Assembly on 15 November 2022:

- Admission of CNC-CBN (Belgium) as new member organisation of the EFRAG Financial Reporting Pillar;
- Appointment of Wolf Klinz as EFRAG Financial Reporting Board (FRB) Chair.



Read the press release [here](#).

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

OPEN CONSULTATIONS

Title and description	Closing date
Academic study on the effects of IFRS 15 <i>Revenue from Contracts with Customers</i>	TBD
EFRAG's Draft Endorsement Advice on the IASB's publication <i>Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)</i>	9 January 2023
EFRAG Discussion Paper <i>Accounting for Variable Consideration from a Purchaser Perspective</i>	31 May 2023

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

INTERNATIONAL FORUM OF ACCOUNTING STANDARD SETTERS (IFASS)

On 8 November 2022, EFRAG issued a report with the key messages and points of discussion from the financial and sustainability reporting topics covered at the September 2022 IFASS meeting held in London.

Read the report [here](#).

Pictures of the meeting are available [here](#).

EFRAG FINANCIAL REPORTING BOARD (FRB)

EFRAG FRB did not have a meeting in November 2022.

[November 2022 written procedures](#)

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

- Draft Endorsement Advice on *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*.



Expected December 2022 written procedures

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

EFRAG FINANCIAL REPORTING TECHNICAL EXPERT GROUP (EFRAG FR TEG)

Webcast meeting

EFRAG FR TEG held a webcast meeting on [3 November 2022](#) and discussed the following topics:

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

EFRAG FR TEG discussed and agreed to recommend, subject to drafting improvements, a draft endorsement advice, recommending the endorsement of the Amendments, for approval to the EFRAG FRB by written procedure.

The objective of the Amendments is to specify how a seller-lessee subsequently measures the right-of-use asset and the lease liability arising in a sale and leaseback transaction.

IASB Project Post-implementation Review of IFRS 9 - Classification and Measurement

The EFRAG FR TEG members discussed PIR findings and recent IASB decisions in respect of modifications of financial assets and financial liabilities and amortised cost measurement and the effective interest method.

Members agreed with the general direction and timing of the project and the proposed areas for clarifications. They noted, however, that practice has been settled for many areas and that amortised cost should remain simple measurement method.

No decisions were taken at the meeting.

IASB Research Project Goodwill and Impairment

The EFRAG FR TEG members received an update on the IASB's latest tentative decisions up to September 2022 and discussed the proposed disclosure objectives, disclosure on subsequent performance and expected synergies from a business combination. Members also received an oral update on the IASB's discussion in October 2022 in relation to possible ways forwards on subsequent accounting for goodwill.

Members generally agreed with the direction of the project and the IASB's latest tentative decisions and provided some comments and points of attention.

No decisions were taken at the meeting.

Webcast meeting

EFRAG FR TEG held a hybrid meeting on [9 November 2022](#) and discussed the following topics:



IASB Project Financial Instruments with Characteristics of Equity

The EFRAG FR TEG members received an update on the IASB's discussions on the IASB's project *Financial Instruments with Characteristics of Equity* (FICE).

In general, members welcomed the IASB's discussions on 'obligations to redeem own equity instruments' but considered that the IASB should at least refer and/or include a question in a forthcoming exposure draft on the issue related to subsequent measurement changes to the redemption amounts. This is because there are different views in practice on whether such measurement changes should be recognised in profit or loss or in equity.

No decisions were taken at the meeting.

IASB Project Amendments to the Classification and Measurement of Financial Instruments

EFRAG FR TEG members received an update on the IASB's latest tentative decisions and EFRAG discussions up to October 2022 and discussed the proposed new requirements for disclosures and transition and effective date. Members expressed some concerns about the broad scope of the proposed disclosure requirements and the potential application costs.

No decisions were taken at the meeting.

IASB Project Post-implementation Review of IFRS 9 - Classification and Measurement

EFRAG FR TEG members received an update on the recent IASB decisions on various aspects of the PIR of IFRS 9 *Classification and Measurement*.

Members generally agreed with the IASB decision not to take further action on the six matters not previously discussed in PIR of IFRS 9 and the two application questions, given the other priorities. Some members considered that the prevalence of the issue of own use exemption was underestimated, especially in the current economic environment of raising energy prices.

EFRAG FR TEG agreed with the IASB decision not to provide further clarifications in respect of the application of the business model requirements.

EFRAG FR TEG members were supportive of the IASB proposals for accounting policy choice for electronic cash transfers, the criteria and introduction of the notion of control. Members highlighted the importance of clearly defining the scope of the amendments.

Members acknowledged the IASB arguments of not allowing the recycling of equity instruments measured at FVOCI and highlighted the importance of monitoring this topic in the future to obtain new evidence.

No decisions were taken at the meeting.

EFRAG Research Project Better Information on Intangibles

EFRAG FR TEG received a summary of the feedback received in response to EFRAG's Discussion Paper ('DP') *Better Information on Intangibles – Which is the best way to go?* EFRAG FR TEG's initial assessment was that the characteristics of the feedback received



would allow EFRAG to develop recommendations based on evidence gathered from the DP and the conducted outreach activities related to the DP.

EFRAG FR TEG would consider such recommendations at a future meeting.

No decisions were taken at the meeting.

Webcast meeting

EFRAG FR TEG held a hybrid meeting on [30 November 2022](#) and discussed the following topic:

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

EFRAG FR TEG discussed and agreed to recommend, subject to drafting improvements, a draft endorsement advice, recommending the endorsement of amendments to IAS 1 *Presentation of Financial Statements: Non-current Liabilities with Covenants*, amendments to IAS 1: *Classification of Liabilities as Current or Non-Current*, and amendments to IAS 1: *Classification of Liabilities as Current or Non-Current - Deferral of Effective Date* (the Amendments), for approval to the EFRAG FRB in December 2022.

The objective of the Amendments is to specify how an entity classifies a liability with covenants as current or non-current and to regulate the disclosures to be provided when an entity has loan arrangements with covenants that could require the loan arrangement to become payable within twelve months after the reporting period.

Next meeting

EFRAG FR TEG will hold a next hybrid meeting [1 December 2022](#).

EFRAG FR TEG AND EFRAG CFSS

Webcast meeting

EFRAG FR TEG and EFRAG Consultative Forum of Standard Setters (EFRAG CFSS) held a hybrid meeting on [30 November 2022](#) and discussed the following topics:

IASB Project *Primary Financial Statements*

EFRAG FR TEG-CFSS members received an overview of the EFRAG outreach activities on the IASB's project on *Primary Financial Statements* and considered the feedback received on the selection of tentative decisions included in the outreach that represent a change to the initial proposals.

EFRAG FR TEG-CFSS members also provided their views on the revised proposals included in the outreach. Members generally agreed with the direction taken by the IASB on the selected topics, however, expressed some concerns, including having income and expenses from associates and joint ventures always being presented outside operating profit.



IASB Project *Provisions - Targeted Improvements*

EFRAG FR TEG-CFSS members provided their views on whether to require or prohibit inclusion of non-performance risk and disclosure of information about discount rates. Members were, in general, in favour of additional guidance on discount rates in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. However, there were mixed views on whether non-performance risk should be included in the discount rates. Some members did not agree with the inclusion while some other members did not have a view at this stage.

Post-implementation Review of IFRS 15

EFRAG FR TEG-CFSS received an overview of the general messages and preliminary issues identified during the EFRAG Secretariat's preparatory work in anticipation of the IASB Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*.

Members indicated that overall IFRS 15 is working well, and any improvements need to take account of the corresponding significant impact on systems given the importance of the revenue amount. Members agreed with EFRAG's preliminary list of issues and commented on the specific issues arising within their jurisdictions. It was also agreed that there is a need to clarify the threshold of issues that can be addressed in a PIR and to focus on issues that are pervasive and where there is a gap in the requirements.

IASB Research Project *Business Combinations under Common Control*

EFRAG FR TEG-CFSS members were provided with an update on the IASB's project and were asked to comment on particular aspects of selecting the measurement method(s) to apply to BCUCC's.

Many members indicated that the substance of the transaction needed to be reflected. However, if the IASB continued with the proposals related to the general model to be used and the exceptions and exemptions to be applied, there was support for the insignificant NCS exception but not for the government-related entities exception.

IASB Research Project *Equity Method*

EFRAG FR TEG-CFSS were provided with a summary of the preliminary IASB decisions. Members provided mixed views on whether gains or losses on transactions between an investor and its associates should be recognised in full or partly eliminated in the financial statements of the investor.

IFRS IC discussions

EFRAG FR TEG-CFSS members were provided with a summary of the main open issues discussed by the IFRS Interpretations Committee.

Next meeting

EFRAG FR TEG-CFSS will hold a next meeting [15 March 2023](#).



EFRAG'S SUSTAINABILITY REPORTING AND RELATED ACTIVITIES

EFRAG Governance Reform

In November 2022 EFRAG reported the following admission and appointments to its governance structure following decisions at the EFRAG General Assembly on 15 November affecting Sustainability reporting Pillar:

- Appointment of Patrick de Cambourg as EFRAG Sustainability Reporting Board (SRB) Chair; and
- Appointment of three new EFRAG SRB members: Aleksandra Palinska (European Stakeholder Organisations - users sector), Thierry Philipponnat (Civil Society Organisations Chapter - consumer organisations sector) and Laurence Rivat (National Organisations Chapter - ANC (France)).

EFRAG Sustainability Reporting Board (EFRAG SRB)

The drafts for ESRS 1 and 2 as well as ESRS E2, E3 and E5 were discussed and tentatively agreed on 1 to 3 as well as 7 November 2022.

On 11 November 2022, there was a joint EFRAG SRB and EFRAG SR TEG meeting to receive the presentation of CEPS-Milieu's assessment on the costs and benefits of the first set of draft ESRS.

On 15 November 2022, the EFRAG SRB approved the first set of draft ESRS to be submitted to the EC subject to final editorial changes. The drafts were almost unanimously adopted with one abstention by the member nominated by BusinessEurope on the following five standards: ESRS 1 and 2 (*General requirements* and *General Disclosures*); ESRS S1, S2 and S4 (*Own workforce*, *Workers in the value chain* and *Consumers and end-users* respectively) due to some remaining concerns including the addition of mandatory requirements outside of the materiality assessment and the burden to preparers. The reasons for abstention have been in detail explained in the due process note accompanying the publication of the draft ESRS.

EFRAG Sustainability Reporting Technical Expert Group (EFRAG SR TEG)

On 17 November 2022, EFRAG SR TEG met to start its discussions on the second set of draft ESRS and discussed various aspects relating to the development of ESRS standards for SME's including background on the workstreams; a presentation of the PTF-ESRS for voluntary sustainability reporting standard for non-listed SMEs and the approach to the development of ESRS for Listed SMEs.

Other involvement in sustainability reporting

Platform on Sustainable Finance (PSF)

The PSF held its last plenary meeting on 11 and 12 October 2022. No further activities were conducted in November.

A call for application to the next PSF was launched by the European Commission on 12 October and was open until 9 November 2022. The next PSF mandate will run from Q1 2023 to Q4 2024. EFRAG's role as observer to the next PSF has not been confirmed yet.

PUBLICATIONS

Delivery of first set of draft ESRS to the European Commission

On 23 November 2022, EFRAG announced that it submitted the first set of draft ESRS to the European Commission the day before as technical adviser 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.

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.

This first set of 12 draft ESRS is composed of:

- Cross-cutting standards:
 - Draft ESRS 1 *General requirements*
 - Draft ESRS 2 *General disclosures*
- Topical standards:

Environment:

- Draft ESRS E1 *Climate change*
- Draft ESRS E2 *Pollution*
- Draft ESRS E3 *Water and marine resources*
- Draft ESRS E4 *Biodiversity and ecosystems*
- Draft ESRS E5 *Resources and circular economy*

Social:

- Draft ESRS S1 *Own workforce*
- Draft ESRS S2 *Workers in the value chain*
- Draft ESRS S3 *Affected communities*
- Draft ESRS S4 *Customers and end-users*

Governance:

- Draft ESRS G1 *Business conduct*

The draft standards are accompanied by:

- a Cover letter;

- a Due process note setting out the process applied and the main differences between the exposure drafts and the draft ESRS;
- an Explanatory note, including its Annex, of how draft ESRS take account of the initiatives and legislation listed in Article 1 (8) of the CSRD adding article 29 (b) -5 to the Accounting Directive;
- EFRAG's Cover Letter on the Cost-benefit analysis of the First Set of draft ESRS, a Cost-benefit analysis of the First Set of draft ESRS prepared by CEPS and Milieu; and
- The following six appendices:
 - Appendix I – Disclosure Requirements index;
 - Appendix II – CSRD requirements for the development of sustainability reporting standards and their coverage by the draft ESRS;
 - Appendix III – Datapoints in accordance with EU laws in the ESRS;
 - Appendix IV – TCFD Recommendations and ESRS reconciliation table;
 - Appendix V – IFRS Sustainability Standards and ESRS reconciliation table; and
 - Appendix VI – Acronyms and glossary of terms.

The bases for conclusions will be published in December.

Kerstin Lopatta, former EFRAG Acting SRB Chair, stated: “On behalf of the EFRAG SRB, as Acting Chair, it is my great pleasure to deliver today the first set of 12 draft European Sustainability Reporting Standards (ESRS) as Technical Advice to the European Commission. We can be proud of this outcome of a due process involving all European stakeholders since June 2021 and of this critical contribution to establishing sustainability reporting in the EU on robust foundations. Our goal has been to strike the right balance between a game-changing step forward and a pragmatic implementation and to foster global sustainability reporting progress while taking full account of the feedback received through our public consultation and deliberations. We are confident that we will all in due course benefit from this collective effort towards more transparency and accountability.”

Chiara Del Prete, EFRAG Acting SR TEG Chair, commented: “As EFRAG SR TEG Acting Chair and having led on the field the activities of the EFRAG Secretariat, I am today proud and honoured that EFRAG has accomplished his challenging mission to deliver to the European Commission the first Set of draft ESRS, following its multi-stakeholder due process note. I am particularly grateful to my fellow EFRAG SR TEG members who managed to reach a consensual approval in issuing the EFRAG SR TEG advice to EFRAG SRB and, for their tireless support, to all the members of the EFRAG Secretariat.”

In the European Commission's [notice](#), Mairead McGuinness, Commissioner for Financial Services, Financial Stability and Capital Markets Union, said: “It is time to put sustainability reporting on an equal footing with financial reporting and that is exactly what we are doing here. Mandatory sustainability reporting standards will be an important tool to combat greenwashing. Standards will also help companies to communicate and manage their sustainability performance more efficiently.”

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, and
- 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.

ESMA, EBA and EIOPA are required to provide an opinion on EFRAG's technical advice. These opinions should be provided within two months from the date of receipt of the request from the European Commission.