



EFRAG

Europe's voice in corporate reporting

MAY 2023



EFRAG UPDATE

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.

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EFRAG'S SYMPOSIUM AT THE EAA 45TH ANNUAL CONGRESS IN FINLAND

On 26 May 2023, EFRAG held a symposium on *Connectivity between financial reporting and sustainability reporting* at the *European Accounting Association Annual Congress* which took place in Helsinki and Espoo.



At this symposium, panellists discussed the issues on connectivity between financial reporting and sustainability reporting. They considered the different aspects of connectivity: from the process and governance interaction between sustainability reporting and standard setting, to the conceptual dimension and the operational approaches. The role that integration in reporting may play was as well discussed. The discussion also aimed at revealing projects where insights from academic research are sought.

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

EFRAG GOVERNANCE AND DUE PROCESS

EFRAG Connectivity Advisory Panel ('EFRAG CAP')

The EFRAG Financial Reporting Technical Expert Group (EFRAG FR TEG) approved, on 23 May 2023, the appointment of the 23 members of the EFRAG CAP following the recommendation made by the EFRAG Administrative Board supported by its Nominating Committee. The composition will be announced in early June 2023 after each candidate is individually informed of the decisions.

EFRAG received applications from about 150 candidates with a broad range of backgrounds and nationalities. The objective of the EFRAG CAP is to advise EFRAG FR TEG on the EFRAG's proactive research project on the connectivity between financial reporting and sustainability reporting information. EFRAG CAP members will share their perspectives and practical experience regarding connectivity matters, and help EFRAG identify, assess and prioritise connectivity themes, identify related good reporting practices and develop possible approaches to enhance connectivity.

EFRAG FINANCIAL REPORTING BOARD (FRB) & EFRAG SUSTAINABILITY BOARD (SRB)

Physical meeting 3 May 2023

The EFRAG FRB and EFRAG SRB held a joint physical meeting on [3 May 2023](#) and discussed the following topics:

ISSB Agenda Consultation

The EFRAG FRB and EFRAG SRB received a presentation on the upcoming ISSB Agenda Consultation from Jenny Bofinger-Schuster, Board member ISSB and Rommie Johnson, Technical Director ISSB.

The presentation was followed by a discussion on the planned projects, the work process behind and the future approach to sustainability standard setting by the ISSB, e.g., in regard to sector and topical standards. The discussion covered also the organisational structure of the ISSB, how the ISSB and IASB work closely together and the inclusion of SMEs globally.

Finally, the EFRAG SRB Chair noted that standard setters such as ISSB and EFRAG could ultimately consider the need for development of a conceptual framework for sustainability reporting.

No decisions were taken at the meeting.

EFRAG Research Project Connectivity

The EFRAG FRB and EFRAG SRB received an update on the EFRAG research project on connectivity between financial and sustainability reporting covering the objective, scope, approach, and elements of connectivity. It was clarified that the scope of the project was how to connect information within sustainability disclosures, the management report and financial statements. However, relevant information (e.g., compensation linked to performance) that is in other reports ought to be considered (e.g., information incorporated into sustainability statements by cross-reference). The project will cover both ESRS and IFRS Sustainability Standards.

EFRAG'S FINANCIAL REPORTING ACTIVITIES

PUBLICATIONS

Draft Comment Letter

On 5 May 2023, EFRAG published its Draft Comment Letter ('DCL') in response to the IASB's Exposure Draft ED/2023/2 *Amendments to the Classification and Measurement of Financial Instruments (Proposed amendments to IFRS 9 and IFRS 7)*.

In its DCL, EFRAG welcomes the IASB's efforts to address the concerns of stakeholders and, in general, agrees with the proposed amendments to the classification and measurement of financial instruments.

Comments can be submitted **until 30 June 2023**.

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

Academic Study

On 10 May 2023, EFRAG published the academic study [The production and consumption of information on intangibles: An empirical investigation of preparers and users](#). The study has been supported by EFRAG, EFFAS and ICAS.

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

OPEN CONSULTATIONS

Title and description	Closing date
EFRAG Draft Comment Letter on the IASB's Exposure Draft <i>ED/2023/2 Amendments to the Classification and Measurement of Financial Instruments (Proposed amendments to IFRS 9 and IFRS 7)</i>	30 June 2023
Academic study on the effects of IFRS 15 <i>Revenue from Contracts with Customers</i>	1 September 2023
EFRAG Discussion Paper <i>Accounting for Variable Consideration from a Purchaser Perspective</i>	30 November 2023

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

WEBINARS AND ONLINE OUTREACHES

Academic study on the effects of IFRS 15 Revenue from Contracts with Customers

EFRAG encourages preparers to [provide input](#) to an academic study on the effects of the adoptions of IFRS 15 *Revenue from Contracts with Customers* on management control systems. The study will be important for EFRAG's work related to the IASB's Post-implementation Review of IFRS 15.

Interested stakeholders have **until 1 September 2023** to share their views.

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

Summary Report: EFRAG - BusinessEurope outreach event Variable Consideration - Alternatives to Address Current Accounting Challenges

On 26 May 2023, EFRAG published a [summary report](#) of the [joint webinar](#) on EFRAG's Discussion Paper [Accounting for Variable Consideration - From a purchaser's perspective](#) held on 16 February 2023.

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

EFRAG FINANCIAL REPORTING BOARD (FRB)

Physical meeting 3 May 2023

The EFRAG FRB held a webcast meeting on [3 May 2023](#) and discussed the following topics:

IASB ED Amendments to the Classification and Measurement of Financial Instruments

The EFRAG FRB discussed the Draft Comment Letter on the IASB's Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments (Proposed amendments to IFRS 9 and IFRS 7)* ('DCL') as recommended by EFRAG FR TEG and approved it, subject to drafting changes agreed in the meeting.

In its DCL, EFRAG welcomes the IASB's efforts to address the concerns of stakeholders and, in general, agrees with the proposed amendments to the classification and measurement of financial instruments.

In particular, EFRAG considers that the proposed clarifications to the general SPPI requirements would provide a good basis for evaluating whether contractual cash flows of financial assets with ESG-linked or similar features meet SPPI requirements. EFRAG would like to remind that the solution is expeditiously needed and welcomes the IASB efforts in this respect. Therefore, EFRAG encourages the IASB to prioritise the publication for these proposed clarifications over the others included in the ED, allowing entities to apply them as early as possible.

IASB Project Rate-regulated Activities

The EFRAG FRB received an education session on the direct (indirect) relationship between the Regulatory Capital base and IFRS Property, Plant and Equipment.

No decisions were taken at the meeting.

IASB Research Project PIR of IFRS 15 Revenue from Contracts with Customers

The EFRAG FRB discussed the categorisation and prioritisation of IFRS 15 application challenges and the interactions with other IFRS Standards. Members generally highlighted that IFRS 15 is working well and, therefore, they did not expect neither relevant changes nor additional standard-setting activity by the IASB.

No decisions were taken at the meeting.

IASB Research Project PIR of IFRS 9 Impairment

The EFRAG FRB discussed the preliminary analysis performed by the EFRAG Secretariat on the forthcoming Request for Information for the Post-implementation Review of impairment requirements in IFRS 9 *Financial Instruments*. The EFRAG FRB members generally agreed with the results of the EFRAG's preliminary work.

No decisions were taken at the meeting.

Update of work plan and any other matters

Climate-related risk in financial statements was added as a significant project and it was agreed that the draft response to the Request for Information for the PIRs on IFRS 9 and IFRS 15 will only be approved by EFRAG FR TEG.

Next meeting

The EFRAG FRB will hold a next webcast meeting [20 June 2023](#).

EFRAG FRB May 2023 written procedures

EFRAG FRB did not approve any document using written procedures in May.

EFRAG FRB expected June 2023 written procedures

EFRAG FRB is expected to approve the following document using written procedures in June:

- Final Endorsement Advice on *International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12)*.

EFRAG FINANCIAL REPORTING TECHNICAL EXPERT GROUP (FR TEG) & EFRAG USER PANEL

Physical meeting 10 May 2023

EFRAG FR TEG and EFRAG User Panel held a physical meeting on [10 May 2023](#) and discussed the following topics:

IASB ED Amendments to the Classification and Measurement of Financial Instruments

EFRAG FR TEG and EFRAG User Panel provided their views on the IASB proposals in the Exposure Draft *ED/2023/2 Amendments to the Classification and Measurement of Financial Instruments (Proposed amendments to IFRS 9 and IFRS 7)* and in particular on disclosure requirements.

Members noted that the proposed disclosures of contractual terms that could change the timing or amount of contractual cash flows would cover the wide range of financial instruments and could be difficult and costly to prepare.

The usefulness of the proposed disclosures for financial assets measured at FVOCI was questioned.

IASB Project *Business Combinations - Disclosures, Goodwill and Impairment*

EFRAG FR TEG and EFRAG User Panel members discussed the recent IASB's tentative decisions on the package of disclosures an entity should provide on the objective(s) and subsequent performance of a business combination.

Members provided their comments and views on expected synergies, "strategically important" business combinations, and the duration for which information should be provided. Also, members discussed additional disclosure elements that the IASB could consider as part of the project, such as performance reconciliation, pro-forma information, and cash flows impacts.

IASB Project *Primary Financial Statements*

EFRAG FR TEG and EFRAG User Panel members were provided with an overview of the IASB project and discussed some specific IASB's tentative decisions.

Members generally supported the direction of redeliberations as responding to the feedback received in the EFRAG 2022 roundtables. Members provided their comments and views on the presentation of the results from equity accounted investments, unusual income and expenses, and application guidance on additional subtotals and management performance measures. Finally, members discussed the IASB proposal relating the effective date and transition to the new standard.

EFRAG Research Project *The Statement of Cash Flows and Related Matters*

EFRAG FR TEG and EFRAG User Panel members discussed what the main objective of the statement of cash flow is. It was also considered how users use the statement of cash flows and issues with current requirements and how statements of cash flows are currently prepared.

IFRS Interpretation Committee submission *Power Purchase Agreements*

EFRAG FR TEG and EFRAG User Panel members were provided with a summary of the submitted fact patterns related to power purchase agreements for which the IFRS Interpretation Committee was asking for input to assess their prevalence across industries and jurisdictions and whether diversity in practice was noted. Members discussed the issue and provided their inputs.

EFRAG FINANCIAL REPORTING TECHNICAL EXPERT GROUP (FR TEG)

Physical meeting 11 May 2023

EFRAG FR TEG held a physical meeting on [11 May 2023](#) and discussed the following topics:

IASB Project *Dynamic Risk Management*

EFRAG FR TEG was provided with an update on the April IASB's tentative decisions. Members were, in general, supporting these tentative decisions.

No decisions were taken at the meeting.

IASB Project *Primary Financial Statements*

EFRAG FR TEG received an update on the IASB's latest tentative decisions on categories and subtotals, management performance measures ('MPMs') and disaggregation requirements. In general, members welcomed the IASB's recent tentative decisions.

However, some members asked for further clarifications and application guidance on exchange rate differences on other liabilities and hybrid contracts. In addition, members were not in favour to the IASB's tentative decision not to prohibit an entity from disaggregating income and expenses in the notes to the financial statements into components not recognised or measured in accordance with IFRS Standards. These members considered that the use of non-IFRS measures should be limited (e.g., disclosures on MPMs or segment reporting) and if used elsewhere, then it should be clear that these measures are inconsistent with the measurement requirements under IFRS Standards.

No decisions were taken at the meeting.

EFRAG Research Project - *The Statement of Cash Flows and Related Matters*

EFRAG FR TEG discussed the scope of EFRAG's research project on the statement of cash flows. The purpose of EFRAG's work is to provide input to the project on the statement of cash flows and related matters, the IASB has included in its research pipeline. EFRAG FR TEG members provided a number of suggestions on how the scope of the project should be set.

No decisions were taken at the meeting.

EFRAG Research Project - Connectivity

EFRAG FR TEG discussed the implications of possible IASB/ISSB connectivity related workstreams and the use of the EFRAG Advisory Panel on Connectivity between Financial and Sustainability Reporting Information ('EFRAG CAP'). EFRAG FR TEG considered that the first phase of EFRAG's project on connectivity should still focus on 'connectivity' even if the ISSB would initiate a project on integration in reporting following its agenda consultation. EFRAG FR TEG noted the importance of receiving input from the EFRAG CAP as soon as possible on practical aspects of connectivity between financial and sustainability reporting information.

No decisions were taken at the meeting.

[Webcast meeting 31 May 2023](#)

EFRAG FR TEG held a webcast meeting on [31 May 2023](#) and discussed the following topics:

IASB Project *International Tax Reform–Pillar Two Model Rules (IAS 12)*

EFRAG FR TEG discussed the results of the public consultation on EFRAG's preparatory draft for its Endorsement Advice Letter on the Amendments to IAS 12. EFRAG received six comment letters which fully agreed with EFRAG's assessment.

EFRAG FR TEG agreed to recommend the Endorsement Advice Letter on the Amendments to IAS 12 for approval to the FRB.

Next meeting

EFRAG FR TEG will hold a webcast meeting on [6 June 2023](#).

EFRAG'S SUSTAINABILITY REPORTING ACTIVITIES

PUBLICATIONS

Draft Comment Letters

On 2 June 2023, EFRAG published its Draft Comment Letter ('DCL') to the ISSB's *Exposure Draft: Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates*.

In its draft comment letter EFRAG generally agrees that the proposed methodology would improve the international applicability of the SASB standards but suggests further improvements.

Comments can be submitted **until 10 July 2023**.

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

On the same day, EFRAG published its Draft Response to the ISSB's *Request for Information: Consultation on Agenda Priorities*.

In its response, EFRAG puts the emphasis on interoperability, including with ESRS, on structure and content of the future ISSB sustainability standards, and on connectivity. EFRAG will not put forward a prioritisation of the different topical standards to be developed, because it develops comprehensive standards in accordance with the CSRD.

Comments can be submitted **until 25 July 2023**.

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

OPEN CONSULTATIONS

Title and description	Closing date
EFRAG's DCL to the ISSB's <i>ED Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates</i>	10 July 2023
EFRAG's response to the ISSB's <i>Request for Information: Consultation on Agenda Priorities</i>	25 July 2023

SAVE THE DATE: JOINT EFRAG AND ISSB HYBRID EVENT

ISSB Agenda consultation and international applicability of SASB standards

On 15 June 2023 from 13:30 to 15:30 CEST, EFRAG and ISSB will host a joint outreach event on ISSB's Request for Information (RFI) on its Agenda consultation and International Applicability of SASB Standards.

This will be a hybrid event, taking place in EFRAG offices in Brussels and online.

Speakers include:

- Patrick de Cambourg, EFRAG SRB Chair;

- Jenny Bofinger-Schuster, ISSB member;
- Chiara del Prete, EFRAG SR TEG & IFASS Chairwoman; and
- Laura Girella, ISSB; Francesca Recanati, ISSB; Corey Walrod, ISSB; Didier Andries, EFRAG; Pedro Faria, EFRAG.

Download the "[Save the date](#)" and register [here](#).

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

EFRAG SUSTAINABILITY REPORTING BOARD (SRB)

Meeting date	Topics covered
3 May 2023	Refer to the joint meeting of EFRAG FRB and EFRAG SRB on page 4
4 May 2023	<ul style="list-style-type: none">• Updates on implementation support deliverables (closed session)• Discussion of the draft responses to the two ISSB consultations
24 May 2023	Discussion of the draft responses to the two ISSB consultations

The next EFRAG SRB meeting will be held on [14 June 2023](#).

ISSB agenda consultation

The ISSB agenda was discussed on the joint meeting on 3 May 2023. On the 4 and the 24 May 2023 the EFRAG SRB discussed the content of the EFRAG draft comment letter on the ISSB consultation.

The EFRAG SRB received inputs from the EFRAG FRB on the question related to integrated reporting. The Boards agreed that the focus should be on connectivity, rather than integration in reporting, i.e., how to operationalise the principle in IFRS S1 and ESRS 1 of 'connected information' in the sustainability statements, financial statements and other sections of the management report. Furthermore, EFRAG's planned research to improve connectivity could inspire future standard setting when tackling this issue.

The EFRAG SRB agreed that a clear direction of travel is required around the universe of sustainability-related information and that interoperability should be a priority. It was also agreed not to prioritise the different topical research projects given that ESRS covers topics comprehensively as required by CSRD and to suggest that the ESRS architecture is followed for the other sustainability topics. This would

facilitate interoperability. The response was approved by written approval subsequent to the meeting.

ISSB SASB internationalisation consultation

The EFRAG SRB discussed the proposed ISSB methodology to the internationalisation of the SASB standards on the 4 and 24 May 2022.

The SRB discussed the status of SASB standards within the ISSB framework: IFRS S1 requires consideration of their content to identify sustainability-related risks and opportunities and to prepare related disclosures. They are also to be considered as examples of the industry-specific disclosures required by IFRS S2. However, in its meeting in February, the ISSB stated its intention to make those materials mandatory in the future, subject to further consultation.

The EFRAG SRB members supported the internationalisation methodology, but suggested challenging the ISSB on the future of SASB standards and its expectations about the future development of the ISSB framework. The DCL was approved by written approval subsequent to the meeting.

Implementation support activities

The EFRAG SRB received an update in the closed session on the ongoing and planned activities to support the implementation of sector-agnostic ESRS, starting from the drafting of the first deliverables.

No decisions were taken at this meeting.

EFRAG SUSTAINABILITY REPORTING TECHNICAL EXPERT GROUP (SR TEG)

Meeting date	Topics covered
9 May 2023	<ul style="list-style-type: none"> • Closed session with updates on implementation support deliverables • ISSB consultations • Closed educational session by the ISSB staff on the Integrated Reporting Framework
12 May 2023	<ul style="list-style-type: none"> • Closed drafting session on LSMEs
22 May 2023	<ul style="list-style-type: none"> • Closed drafting session on Implementation guidance on value chain • ISSB agenda consultation
23 May 2023	<ul style="list-style-type: none"> • Closed drafting session on Implementation guidance on materiality assessment • Closed educational session by ESMA on ESA's SFDR consultation • ISSB SASB consultation • Connectivity

The next EFRAG SR TEG meeting will be held on [5 June 2023](#).

Implementation activities

EFRAG SR TEG received an update in a closed session about the progress on the implementation activities and also provided detailed drafting comments on partial drafts for value chain and materiality assessment guidance.

Listed SME standard

EFRAG SR TEG provided in a closed session detailed comments on the drafting of the exposure draft for listed SMEs.

ISSB agenda consultation

EFRAG SR TEG discussed on multiple occasions the ISSB agenda consultation.

On 9 May 2023, EFRAG SR TEG agreed on key messages to be included in the EFRAG response. The strategic direction and balance of the ISSB's activities and the question of prioritisation of certain topics were discussed, as well as the EFRAG SRB suggestion to add interoperability as criteria for assessing sustainability reporting matters.

On 22 May 2023, EFRAG SR TEG discussed the input from EFRAG FR TEG on integration on reporting. They discussed the importance to avoid ambiguities in terminology and clearly identify 'connectivity' as the operational aspect of the current principles in IFRS S1 and ESRS 1 along the lines of EFRAG research. They discussed integrated reporting and the cooperation between the IASB and the ISSB on this project. In Europe, sustainability statements would be in a separate section in the management report, but ESRS 1 includes an appendix that illustrate how to incorporate by reference the content of an integrated executive summary located in another section of the management report.

ISSB SASB internationalisation consultation

The EFRAG SR TEG discussed the EFRAG Draft Comment Letter ('DCL'). Members noted that with the broad scope of the CSRD, also non-EU companies in some cases have to apply ESRS.

On the 23 May 2023, EFRAG SR TEG discussed the use of international references in standard setting and noted that the updated SASB standards run the risk of future changes that are out of control of the standard setter. The preferred option in ESRS is to incorporate key elements of the methodology rather than including the reference to external documents. EFRAG SR TEG considered also the ratification status of an international reference and its importance when being included in future SASB Standards as a future point of discussion.

EFRAG SR TEG finally discussed requesting that the ISSB prepares a gap analysis between the SASB standards and new sustainability reporting frameworks.

OTHER INVOLVEMENT IN SUSTAINABILITY REPORTING

Platform on Sustainable Finance (PSF)

EFRAG is an official observer in the second mandate of the Platform on Sustainable Finance and is represented by Kerstin Lopatta, EFRAG SRB Vice-Chair. EFRAG participates in *Usability and Data* (SG1) and in the *Technical Working Group advising on the technical screening criteria* (SG2).

Regular subgroups meetings take place. On 24 May 2023, the fourth plenary meeting took place. In addition to an update from the EC, there were updates on the transition finance and the transition finance workshop and updates of the three Subgroups. Several educational sessions were held.

The fifth plenary meeting takes place on 12 July 2023. Additional plenary meetings will be organised for the consultations on the SFDR RTS and on the draft delegated act on ESRS.