



EFRAG UPDATE

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

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EFRAG UPDATE

SEPTEMBER 2023

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.

EFRAG ANNUAL CONFERENCE 2023 "EUROPEAN CORPORATE REPORTING: TWO PILLARS FOR SUCCESS"

EFRAG will hold its annual Conference 2023 "*European corporate reporting: two pillars for success*" in cooperation with the European Commission and with in-person participation of Commissioner Mairead McGuinness on 28 November 2023 in Brussels.

High-level speakers and panellists will share their views on accomplishments and challenges ahead in the field of sustainability reporting, debate the new developments in financial reporting and address the latest trends to connect both areas in the fast-evolving environment of corporate reporting.

Register [here](#) to participate in-person or virtually.

Download the [Save the date](#).

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

PASSING OF JEAN-PAUL GAUZÈS, FORMER EFRAG BOARD PRESIDENT

It is with great sadness we received news of the death of Jean-Paul Gauzès, who was the EFRAG Board President for two consecutive terms from 2016 to 2022. After a career as an MEP, Jean-Paul joined EFRAG as Board President. He will be remembered for initiating the governance reform that created a new sustainability reporting pillar ensuring European Sustainability Reporting Standards are being developed using an inclusive and rigorous process. Simultaneously, he also ensured that EFRAG continued to provide the highest quality work in its financial reporting mandate.

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

IFASS MEETING

The International Forum of Accounting Standard Setters (IFASS), that groups national accounting standard setters and other organisations with an interest in corporate reporting around the world, which is chaired by Chiara Del Prete from EFRAG for the March 2022-2025 period, met on 26 and 27 September 2023 to discuss topics related to financial and sustainability reporting.

Topics discussed included climate-related risks in financial statements; accounting for carbon offsets; cash flow reporting, post implementation review of IFRS 15; intangibles; accounting for hyperinflation; ISSB consultation on Agenda Priorities and perspectives on interoperability; and sustainability reporting implementation issues, capacity building, and implementation guidance.

EFRAG presented the session on cash flow reporting. EFRAG also provides the supporting IFASS Secretariat during Chiara Del Prete's term. A summary report will be issued in due course.

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

EFRAG FINANCIAL REPORTING ACTIVITIES

CALL FOR CANDIDATES

[EFRAG groups](#)

Join EFRAG Financial Reporting TEG for 2024 rotation

EFRAG is [calling for candidates](#) for its Financial Reporting Technical Expert Group (EFRAG FR TEG) and is looking for candidates from a wide range of backgrounds and geographical origins and welcomes all applications. EFRAG in particular seeks candidates with general preparer, user and academic backgrounds.

Please send the applications at nominations@efrag.org **by 6 November 2023**.

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

CALL FOR TENDERS

EFRAG extends the submission deadline for its call for tenders to assist EFRAG in identifying uses of and issues with the statement of cash flows to **Friday 13 October 2023, 18:00 Brussels time**.

Tenders should be submitted to: call.for.tender@efrag.org.

Access the components of this call for tenders:

- [The Call for tenders](#);
- [The Information Form](#); and
- [The Draft Contract](#).

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

PUBLICATIONS

Draft Endorsement Advice

On 28 September 2023, EFRAG published its [Draft Endorsement Advice Letter](#) and a separate Invitation to Comment relating to the endorsement for use in the EU of the Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability*. EFRAG is consulting on its assessment of the Amendments against the technical criteria for endorsement in the EU and on its assessment of whether the Amendments are conducive to the European public good.

Comments are requested **by 7 December 2023** by completing the form available [here](#).

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

Final Comment Letter

On 27 September 2023, EFRAG published its [Final Comment Letter](#) ('FCL') in response to the IASB's Request for Information as a part of the Post-implementation Review ('PIR') of the impairment requirements in IFRS 9 *Financial Instruments*.

In its FCL EFRAG considers that the impairment requirements in IFRS 9 generally work as intended and that the use of a forward-looking expected credit loss model results in more timely recognition of credit losses than applying IAS 39 *Financial Instruments: Recognition and Measurement*.

Nevertheless, EFRAG highlights some issues of application or diversity in practice with different levels of priority that should be further considered by the IASB.

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

Briefing Summary

On 14 September 2023, EFRAG issued a Secretariat [Briefing Summary on the IASB project on Climate-related Risks in the Financial Statements](#), which highlights key findings from EFRAG's outreach and other reviews of European companies' related reporting. The summary highlights stakeholders' concerns about current reporting of climate-related risks in the financial statements, causes of these concerns, possible solutions, and stakeholders' views on the appropriate scope of the IASB project.

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

WEBINARS AND ON-LINE OUTREACHES

Summary Report: EFRAG Symposium at the EAA 45th Annual Congress 'Multi-stakeholder perspectives on connectivity'

On 27 September 2023, EFRAG issued [summary report](#) of its symposium at the 2023 EAA Annual Congress on connectivity between financial reporting and sustainability reporting held on 26 May 2023 in Finland.

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

German Speaking Online Outreach Event on the IASB's Post-implementation Review of IFRS 15 - 9 October 2023 - EFRAG joins the ASCG, AFRAC AND FER

On 9 October 2023, the Accounting Standards Committee of Germany (ASCG), together with the standard setters from Austria (AFRAC) and Switzerland (FER), EFRAG and the IASB will discuss the preliminary views regarding the application of IFRS 15.

If you want to participate, please contact bahrmann@drsc.de.

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

OPEN CONSULTATIONS

| Title and description | Closing date |
|---|---------------------|
| EFRAG Draft Comment Letter on PIR of IFRS 15 - <i>Revenue from Contracts with Customers</i> | 11 October 2023 |
| EFRAG Discussion Paper Accounting for Variable Consideration - From a Purchaser's Perspective | 30 November 2023 |
| Amendments to IAS 21 <i>The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability</i> | 7 December 2023 |

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

EFRAG FINANCIAL REPORTING BOARD (FRB)

Webcast meeting

The EFRAG FRB had a closed meeting on 11 September 2023 in which it discussed priorities in the 2024 workplan and its contribution to the 2024 - 2027 EFRAG Strategy.

Next meeting

The EFRAG FRB will hold a next webcast meeting on [3 October 2023](#).

September 2023 written procedures

The EFRAG FRB has approved the following document using written procedures in September:

- EFRAG's Draft Endorsement Advice on Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability*.

Expected October 2023 written procedures

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

EFRAG FINANCIAL REPORTING TECHNICAL EXPERT GROUP (FR TEG)

Webcast meeting 15 September 2023

EFRAG FR TEG held a webcast meeting on [15 September 2023](#) and discussed the following topics:

Lack of Exchangeability (Amendments to IAS 21)

The EFRAG FR TEG members discussed the draft of EFRAG's endorsement advice on the Amendments to IAS 21 *Lack of Exchangeability*. The members agreed to recommend the DEA for approval to the EFRAG FRB subject to drafting amendments.

IASB Project Financial Instruments with Characteristics of Equity

EFRAG FR TEG were provided with an overview on the IASB's tentative decisions to date including an overview of past EFRAG discussions. EFRAG FR TEG also discussed key messages for EFRAG's draft comment letter based on these IASB's tentative decisions.

Members were supportive of the project direction. However, they indicated that the wording of the Exposure Draft is important to assess to what extent the proposals are aligned with current practice. Nonetheless, EFRAG FR TEG members raised a number of concerns on the effects of applicable laws on the contractual terms of financial instruments, shareholders' discretion, reclassification between financial liabilities and equity instruments and obligations to redeem own equity instruments.

Finally, some EFRAG FR TEG members expressed concerns that the IASB's consultation period would take place when preparers were busy with annual corporate reports and thus less available to participate in outreaches and field-tests.

No decisions were taken at the meeting.

IASB Project Primary Financial Statements

EFRAG FR TEG received an update on the latest IASB's tentative decisions, including those related to the classification of income and expenses from associates and joint ventures accounted for using the equity method, the remaining issues relating to Management Performance Measures, the effective date and the transition requirements. Furthermore, members agreed and provided their inputs on the scope and the sample selection methodology to be used for the early-stage analysis

of a sample of financial statements to support the forthcoming endorsement process.

No decisions were taken at the meeting.

Webcast meeting 21 September 2023

EFRAG FR TEG held a webcast meeting on [21 September 2023](#) and discussed the following topic:

IASB Project *Supplier Finance Arrangements*

EFRAG FR TEG discussed the feedback received in response to the consultation on EFRAG's Draft Endorsement Advice on *Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)* ('the Amendments') as well as the feedback obtained from the outreach activities. EFRAG FR TEG agreed to recommend for approval to the EFRAG FRB the endorsement advice letter on the Amendments.

Webcast meeting 25 September 2023

EFRAG FR TEG held a webcast meeting on [25 September 2023](#) and discussed the following topic:

IASB Research Project *PIR IFRS 9 - Impairment*

EFRAG FR TEG discussed the feedback received on EFRAG's Draft Comment Letter and approved the EFRAG's Final Comment Letter on the IASB RFI on PIR of IFRS 9 - *Impairment* subject to comments and drafting suggestions.

Next meeting

EFRAG FR TEG will hold a joint meeting with EFRAG SR TEG on [18 October 2023](#) and a separate meeting on [19 October 2023](#).

EFRAG FR TEG AND EFRAG CFSS

Webcast meeting

EFRAG FR TEG and EFRAG Consultative Forum of Standard Setters (EFRAG CFSS) held a webcast meeting on [14 September 2023](#) and discussed the following topics:

International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12)

EFRAG FR TEG and CFSS members discussed the status of the implementation of Pillar Two Model Rules in their jurisdictions. Members also discussed the adoption

in their local GAAP of an exception similar to the exception included in the IAS 12 Amendments *International Tax Reform - Pillar Two Model Rules*.

IASB Project Rate-regulated Activities

EFRAG FR TEG and CFSS members discussed the recent IASB tentative decisions that were made in quarter one and two of 2023. Members were, in general, supportive of the project direction and tentative decisions.

IASB Project Equity Method

The EFRAG FR TEG and CFSS members discussed recent developments in the IASB project related to equity method of accounting, and the applicability of the IASB tentative decisions to accounting for joint ventures and subsidiaries in separate financial statements.

IASB Project Primary Financial Statements

EFRAG FR TEG and CFSS members provided their input about laws and regulations in their jurisdictions that require entities to provide comparative information for more than one period. Members generally were of the view that when more than one comparative period is presented in the statement of profit or loss it should be restated and reconciled providing more comparable and useful information. Conversely, transitional relief could be acceptable for all the other information included in the notes (e.g., MPMs).

IFRS IC Submission Power Purchase Agreements

EFRAG FR TEG and CFSS members had a discussion about power purchase agreements in their jurisdictions including the prevalence and scope of any potential narrow-scope amendments. Members agreed that both physical and virtual power purchase agreements were common or were increasingly becoming common.

IFRS IC discussions

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

Next meeting

EFRAG FR TEG and CFSS will hold a next webcast meeting [28 November 2023](#).

EFRAG SUSTAINABILITY REPORTING AND RELATED ACTIVITIES

EFRAG SUSTAINABILITY REPORTING BOARD (EFRAG SRB)

| Meeting date | Topics covered |
|-------------------|---|
| 13 September 2023 | <ul style="list-style-type: none"> • Update on comments received from internal survey and planning of next steps for Materiality Assessment Implementation Guidance (closed) • Discussion on LSME draft ESRS (open) • Discussion on VSME draft ESRS (open) • ESRS Q&A process (open) • Discussion on materiality approach for sectors (open) |
| 22 September 2023 | <ul style="list-style-type: none"> • Approval of SOD (closed) • Appointment of a new SR TEG member (closed) • Verbal update on ISSB Taxonomy project (closed) • Verbal update on SR TEG SMEs discussions (open) |

ESRS Implementation Q&A process

The EFRAG Secretariat presented the proposed ESRS Implementation Q&A process that EFRAG will follow to collect, categorise, and answer questions raised by stakeholders. The discussions focused on the detailed steps of the process, the role of the EFRAG SRB and EFRAG SR TEG in categorising and approving the EFRAG Secretariat's responses, the need to discuss in public meetings and how to balance public feedback and rapidity of the answers. The approval of the protocol will be at a future EFRAG SRB meeting.

Approach to materiality of sustainability matters in sector ESRS

The objective of the discussion on sector materiality was to discuss whether and how the changes by the European Commission to the sector-agnostic standards as reflected in the delegated act of July 2023 with respect to materiality, impacts the approach for the sector-specific standards. Mixed views emerged and the EFRAG SRB agreed to obtain further insights on the two approaches from the EFRAG SR TEG.

Discussion on feedback from LSME and VSME draft ESRS

The EFRAG SRB reviewed feedback from an internal consultation (to EFRAG SRB and EFRAG SR TEG) on the Draft LSME and VSME ESRS for questions with a score below 80% of support.

Regarding the LSME ESRS Exposure Draft, the EFRAG SRB discussed the results of the application of the decision tree to requirements, the concept of value chain cap, the approach on entity-specific disclosures, sector approach for SMEs, and phase-ins. Regarding the VSME Exposure Draft, the EFRAG SRB discussed the language used, the targets, and the materiality approach. The EFRAG SRB expressed tentative directions on these topics. The EFRAG SR TEG will provide its advice on how to reflect these directions in the drafts.

On 22 September 2023, the EFRAG SRB received updates on discussions held in EFRAG SR TEG meetings specifically the key tentative directions that emerged from the meetings on LSME and VSME.

The next EFRAG SRB meeting will be held on [11 October 2023](#).

EFRAG SUSTAINABILITY REPORTING TECHNICAL EXPERT GROUP (EFRAG SR TEG)

| Meeting date | Topics covered |
|-------------------|---|
| 04 September 2023 | <ul style="list-style-type: none"> Education session: ESRS adopted as DA (closed) Update of Draft Materiality Assessment Implementation Guidance (public) |
| 05 September 2023 | <ul style="list-style-type: none"> Preview of the content of the banks' questionnaires for SMEs: Vienna Initiative (closed) Discussion of Draft Value Chain Implementation Guidance (public) |
| 11 September 2023 | <ul style="list-style-type: none"> Education session on GHG Accounting (closed) Education session on the UK Transition Plan Taskforce (closed) General update on project plans for sector standards (closed) Drafting session for the Agriculture, farming and fishing sector standard (closed) |
| 12 September 2023 | <ul style="list-style-type: none"> Discussion of feedback for LSME, based on internal consultation (public) Discussion of feedback for VSME (public) |

| | |
|-------------------|--|
| 18 September 2023 | <ul style="list-style-type: none"> • Update on the ISSB project XBRL Taxonomy Project for IFRS sustainability standards (closed) • Orientation discussion on sector materiality (public) • Continuation of discussion of feedback LSME (public) |
| 20 September 2023 | <ul style="list-style-type: none"> • Continued discussion of feedback for VSME (public) |
| 29 September 2023 | <ul style="list-style-type: none"> • Continuation of discussion of feedback for VSME (public) • Internal coordination: brainstorming on how to improve members' participation in meetings (closed) |

Implementation Guidance

The updated versions of the Draft Materiality Assessment Implementation Guidance and the Draft Value Chain Implementation Guidance were discussed on 4 and 5 September 2023 respectively. The papers discussed in the meeting were still in draft and are not EFRAG guidance, until approved by the EFRAG SRB and as such they are subject to changes.

EFRAG SR TEG addressed further changes of the MAIG, focusing on key issues and newly drafted FAQs. In particular, the importance of considering links to the EU Taxonomy in the Guidance, focusing on the relationship to taxonomy eligible activities to impact and financial materiality was a topic of discussion. Members supported an approach that considers the taxonomy as evidence to be considered by the undertaking in its materiality approach.

When reviewing the VCIG, EFRAG SR TEG considered editorial changes, aimed at further streamlining the guidance including removing the illustrative appendices as not being too simple.

The guidance will be further discussed at future meetings.

Discussion of Feedback for LSME, VSME EDs

During several meetings, EFRAG SR TEG reviewed the feedback from an internal consultation on the Draft LSME and VSME ESRS.

During the summer, the EFRAG SRB and EFRAG SR TEG provided feedback on the exposure drafts for listed SMEs, small non-complex banks and captive insurers and re-insurers (LSME ESRS ED) and voluntary reporting standard for non-listed SMEs (VSME ED). The [building block approach](#) links the two exposure drafts and allows reconciliation with the content of Set 1 ESRS. In addition, VMSE is built following a modular approach, that allows all SME undertakings from the micro-undertakings (with a voluntary minimum data set) to the small and medium companies to report

their sustainability information (presented at EFRAG SR TEG meeting on 13 July 2023).

The EFRAG Secretariat received about 600 comments on LSME and about 300 comments on VSME. In general, the EFRAG SRB and EFRAG SR TEG supported the simplification achieved in LSME and VSME Eds. There was a general agreement that the building block and the modular approach provide flexibility and address the concerns that exist on proportionality. Most of the detailed comments were taken on board by the EFRAG Secretariat (overview and summary [here](#)); the few that were not accepted are in contradiction with methodological approach agreed by EFRAG SR TEG and SRB or with CSRD provisions.

A number of comments were selected for further discussion at EFRAG SR TEG meeting either because there were conflicting views between respondents, or there were new proposals compared to draft text in LSME and VSME EDs. These included the value chain cap as well as the topical requirements.

During the sessions for the Draft VSME ESRS, EFRAG SR TEG further clarified the 'building blocks' approach and approaches to simplifications namely, how to approach materiality and how to reduce complexity, for example regarding terminology and use of language. Furthermore, specific feedback for the topical requirements was also addressed.

Materiality approach for sectors

On 18 September 2023, EFRAG SR TEG discussed the way forward and possible approaches to materiality for the sector-specific standards. The discussion confirmed that mixed views exist in EFRAG SR TEG on whether approach B+ (consensus of the EFRAG SRB in the meeting on 14 March 2023) or approach C (approach in the delegated act for sector agnostic) would be preferable. The key issue under discussion is the level of transparency about the conclusions of the materiality approach, i.e., possible requirement to explain why a sustainability matter identified in the list of likely material matters at sector level has been assessed as not material. Some of the EFRAG SR TEG members expressed their preference for approach A (the consensus of EFRAG SR TEG on 7 March 2023), which would in addition also require more transparency about the disclosure requirements that are omitted for a material matter. No decisions were taken in this session.

The next EFRAG SR TEG meeting will be held on [2 October 2023](#).

CALL FOR TENDERS

Cost benefit analysis on SME reporting standards

EFRAG releases its open call for tenders to assist in developing a cost benefit analysis for:

- The Draft European Sustainability Reporting Standard for Listed SMEs, small non-complex credit institutions and captive insurance/re-insurances (LSME); and
- The voluntary reporting standard for non-listed SMEs (VSME).

Please send your responses to call.for.tender@efrag.org no later than **20 October 2023 COB**.

More information about the call for tender can be found at the [following link](#).

WEBINARS AND ON-LINE OUTREACHES

EFRAG outreaches on the VSME ED and second VSME community workshop

On 7 September 2023, the EFRAG Secretariat organised the second workshop of the VSME community to discuss the VSME ED. 73 VSME community members attended the closed session with a good representation of SMEs, banks, SMEs' accountants and other stakeholders. 92 attendees joined the public session. Prior to the workshop, VSME community members were asked to provide feedback on the draft VSME proposal. The results were presented and discussed in the workshop. There was general support for the architecture of the VSME ED and the modular system as it allows flexibility for micro, small, and medium sized undertakings outside of the scope of CSRD as an incentive to report. Two topics emerged as important - simplification of the materiality approach and simplification of language.

A key function of the VSME ED is to fulfil a market need for a common point of reference to be used by counterparties in the upstream value chain of SMEs and by lenders when they define their data requests from non-listed SMEs. The EFRAG Secretariat is also exploring initiatives of ESG data request of large corporates towards the supply chain. For this reason, in addition to the VSME Community workshop, the EFRAG Secretariat held outreaches (in a form of closed meetings) on VSME to gather feedback from associations of SMEs, banks across Europe and other relevant stakeholders as follows:

- EFRAG-OECD staff to staff Meeting - 29 August 2023;
- Vienna Initiative - OEKB Workshop with members- 30 August 2023;
- EFRAG session with European banks associations and banks - 1 September 2023;
- SME UNITED and EFRAG Secretariat workshop - 4 September 2023;
- Further sessions are planned with CSR Europe and Business Europe in October.

OPEN CONSULTATIONS

| Title and description | Closing date |
|---|-----------------|
| Call for tender for cost benefit analysis for LSME and VSME | 20 October 2023 |

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).

The 8th plenary meeting of the Platform on Sustainable Finance took place on 13 September 2023 in Brussels and was preceded by Subgroup meetings on 12 September 2023. The topic data science hub was discussed in the plenary session in addition to reports on Subgroup 3 Monitoring of Capital Flows, Subgroup 1 Usability of Data and the Technical Working Group.

The 9th plenary session takes place on 8 November 2023 and is preceded by Subgroup meetings on 7 November 2023. Subgroup meetings are also scheduled for 10 October 2023.