

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of the EFRAG Board. The paper does not represent the official views of EFRAG or any individual member of the EFRAG Board. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

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) Better information on intangible assets;
 - (b) Variable and contingent consideration;
 - (c) Crypto-assets; and
 - (d) Sponsored academic studies.

Better information on intangible assets

- 2 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.
- 3 The project focuses on information that is relevant for providers of economic resources and for assessing stewardship (investors' information needs). Information needs of other stakeholders than the primary users (e.g., broader society, NGOs) are out of scope.
- 4 The project does 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.
- 5 On 5 February 2020 EFRAG published a literature review on the reporting of intangibles.
- 6 At its 4 – 5 March 2020 meeting, EFRAG TEG discussed with the EFRAG User Panel how to engage with users for the purpose of the project, and EFRAG TEG approved the composition of the EFRAG Advisory Panel on Intangibles. This panel met five times from March 2020 to October 2020. In addition, questionnaires to each

panel member and/or interviews with members of the panels were carried out. An additional meeting of the panel is considered for the first part of 2021.

- 7 The input from the EFRAG Advisory Panel on Intangibles (API) was considered at the April 2020 and November 2020 EFRAG TEG meetings. At the April 2020 meeting, EFRAG TEG received an update from the first meeting of the Advisory Panel, discussed the tentative contents of a first discussion paper on problem definition, together with an updated scope of the project.
- 8 EFRAG TEG members reiterated support for the project's objective to improve reporting on intangibles by looking at how to provide useful information to users about creation, maintenance and enhancement of value. Members noted the importance of the project for users and its interactions with other initiatives such as the revision of the Management Commentary Practice Statement.
- 9 At the November 2020 meeting, it was decided that the project deliverables would include a (first) discussion paper with the following content:
 - (a) Issues with the current information provided on intangibles;
 - (b) Possible approaches for better information:
 - (i) Recognition and measurement;
 - (ii) Direct information on intangibles;
 - (iii) Indirect information on intangibles;
 - (c) Challenges and issues to be considered when identifying possible solutions.
- 10 Discussions at the EFRAG API and other initiatives on intangibles have shown that information about intangibles can be provided to users of financial statements both directly and indirectly. That is the information can relate to either:
 - (a) an item of the stock of intangible resources (direct information);
 - (b) factors affecting an intangible item, several intangible items and activity or the entity in general (indirect information). This includes information on how expenses recognised in a period relate to the income of the period or to investments in not recognised intangible resources.
- 11 In the coming months, EFRAG TEG will consider the various chapters of the discussion paper with an aim of publishing the discussion paper around summer. Based on the directions received from EFRAG TEG, the discussion paper will be kept relatively short with the aim of being easy to read.

Interactions with other initiatives

- 12 In the second half of 2020 EFRAG was contacted by ICAS for co-operation on an academic study on reporting on intangibles. EFRAG is participating in this study which will provide an opportunity to have some of the proposals tested in a questionnaire to preparers and users of financial statements. The study is expected to be finalised shortly after the summer break.
- 13 It is the intention that the project will also inform EFRAG for its response to the IASB's project on the Management Commentary Practice Statement (expected in April 2021), and in responding to the IASB's agenda consultation (request for information expected in March 2021).

Activities following the publication of the discussion paper

- 14 Possible future activities (e.g. a second discussion paper) on the project will be considered following the publication of EFRAG's (first) discussion paper.

Variable consideration

- 15 The objectives of EFRAG's project on variable consideration are:
 - (a) to identify the accounting issues around variable consideration for acquired goods and services outside a business combination;
 - (b) to outline the information needs for users of financial statements in regard to variable 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 on recognition and measurement and illustrate their relevant strengths and limitations; and
 - (e) to consider improvements in presentation and disclosure.
- 16 EFRAG's project on variable consideration was put on pause in the second part of 2020 as EFRAG TEG and the EFRAG Secretariat were engaged with more urgent tasks. In the coming months, EFRAG TEG will resume its discussions.
- 17 At its June 2020 and July 2020 meetings, EFRAG TEG discussed the structure of the paper and the content of some of the sections of the paper. The paper will start from the liability side – that is whether/when a liability for (potentially) having to pay a variable consideration exists and should be recognised. This includes a discussion on the unit of account (that is, whether a liability consisting of a fixed and a variable part should be considered as one unit of account or the variable part should be treated as a separate unit of account in relation to recognition). Following the discussion on the recognition and measurement of a liability (initially and subsequently), measurement issues related to the acquired goods or services will be considered. One of the main issues here is whether (or when) changes in the measurement of the liability should affect the measurement of the asset acquired.
- 18 EFRAG TEG has decided to start with a relatively narrow definition of consideration.
- 19 Currently, business combinations are excluded from the scope (because of special issues with allocating changes in the variable consideration to particular assets), however, the scope is not limited to variable consideration paid in cash and the discussion paper will also consider variable consideration classified as equity.
- 20 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.
- 21 It is currently expected that a discussion paper can be issued in the second half of 2021.

Crypto-assets

- 22 The [Discussion Paper on Accounting for Crypto-Assets \(Liabilities\): A Holder and Issuer Perspective \(DP\)](#) issued in July 2020 is open for consultation until 31 July 2021. Related outreach activities commenced in Q4 2020 and are being ramped up in H1 2021.
- 23 A detailed outreach plan has been developed to facilitate a comprehensive and structured outreach approach with the aim to:
 - (a) create awareness of the DP amongst all possible relevant target audiences;
 - (b) stimulate stakeholders' participation in the outreach activities;

- (c) maximise comment letter responses and feedback to the DP to ensure there is sufficient feedback to inform the IASB on stakeholders' expectations on the standard-setting requirements for the topic; and
 - (d) encourage early responses from constituents that can inform EFRAG's input to the IASB agenda consultation.
- 24 As crypto-assets transactions are yet to become mainstream, a targeted outreach is being conducted with a focus on stakeholders with knowledge and experience on the topic. The targeted stakeholders include: national standard setters; accountancy firms; brokerages and financial services firms; institutional investors; regulators, supervisory and policy bodies; legal firms; and academics.

Outreach progress

- 25 EFRAG presented the DP to the International Forum of Accounting Standard Setters (IFASS) in September 2020 and to the Accounting Standards Advisory Forum (ASAF) in December 2020. At both these meetings, mixed views were expressed on the three possible options towards developing IFRS requirements proposed in the DP. One of the takeaways from the feedback was the need to review the challenges associated with current IAS 38 requirements including those related to crypto-assets transactions.
- 26 The Accounting Standards Board of Japan (ASBJ) requested to translate the DP into Japanese in response to stakeholder interest in Japan.
- 27 The EFRAG Secretariat has begun conducting interviews with relevant stakeholders and encouraging their comment letter responses.
- 28 EFRAG is scheduled to present the DP at various fora including at the European Accounting Association virtual research workshop at the end of March and the France IMA Conference on Crypto-assets at the beginning of April.
- 29 To support engagement with stakeholders during the outreach, the EFRAG Secretariat is developing a summary brochure and a series of education-oriented podcasts. These will be issued in February.

Sponsored academic studies

The theory and practice of discounting in financial reporting under IFRS

- 30 Several years ago, EFRAG and ICAS decided to cosponsor a study on the theory and practice of discounting. It was considered that the project could inform the work on a project of discounting with current interest rates considered by EFRAG at that time.
- 31 It is currently expected that the academic study can be published this year. It is the intention that it will be accompanied by a set of questions to stimulate a debate on the issue and to clarify that the paper does not represent the views of EFRAG, but has been commissioned to stimulate debate.
- 32 Some other academic studies have been made in the area and it is the intention of EFRAG and ICAS to host an event on discounting in financial reporting when launching the paper.

Do companies disclose relevant information about intangibles? Insights from business model and risk reporting

- 33 Together with ICAS, EFRAG has sponsored an academic study exploring whether and to what extent companies provide information about intellectual capital elements in the section in financial reports devoted to the description of the business model and risks. Secondly, the study is assessing the correspondence between the

EFRAG research activities update

intellectual capital elements presented in the business model section and those reported in the risk section.

34 It is expected that the study could be useful for EFRAG's project on intangibles (among other projects).

35 It is currently expected that the study will be published in the first half of 2021.

Question for the EFRAG Board

36 Does the EFRAG Board have any comments on this update?