

This paper provides the technical advice from EFRAG FR TEG to the EFRAG FR Board, following EFRAG FR TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG FR Board. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG FR Board are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

Recommendation of new projects for the EFRAG proactive research agenda Issues Paper

Objective and EFRAG FR TEG recommendations

- 1 At its May 2022 meeting, EFRAG FR TEG discussed and recommended projects to be included in EFRAG's proactive research agenda after taking into account both constituents' feedback to the May 2021 EFRAG agenda consultation and the implications of IASB decisions in April on its active agenda for 2022-2026.
- 2 The purpose of this session is to seek the EFRAG FR Board's approval of the recommendations made by EFRAG TEG for new projects to be added to EFRAG's proactive research agenda.
- 3 EFRAG FR TEG recommends that on completion of the current proactive research projects in H2 2022, EFRAG should commence work on two new projects (i.e., connectivity between financial and sustainability reporting; and cash flows reporting) and concurrently have a reserve list and do some further exploratory on two other projects (operating segments and pollutant pricing mechanisms) before deciding on a third project. In other words, to conduct the projects on a staggered basis with a prioritisation of the two new projects. These recommendations take into account EFRAG's current capacity.
- 4 In addition, EFRAG FR Board's views on other possible short-term projects including follow-ups on completed proactive projects (e.g., through the issuance of Briefing Bulletins) are sought.
- 5 The rest of the paper is structured as follows
 - (a) Overview of feedback to EFRAG agenda consultation
 - (b) Summary of IASB's Third Agenda Consultation Decisions
 - (c) Analysis and recommendations of possible projects for the EFRAG proactive agenda
 - (d) Preliminary views on the scope of the recommended projects.

Overview of feedback on EFRAG’s proactive research agenda

Feedback on EFRAG’s proactive research agenda

- 6 The Table below summarises the number of respondents (i.e., during outreach and through surveys and comment letters) that supported adding each of the listed projects to EFRAG’s proactive research agenda. It only includes projects supported by constituents responding to the EFRAG agenda consultation.

Source of feedback	Outreach	Survey	Comment letters	Total
Number of respondents	19	6	10	35
Possible project				
Connecting financial and sustainability reporting, starting from climate-related financial implications***.	14	5	7	26
Digital reporting**	10	4	5	19
Statement of cash flows & Supply chain financing*	7	4	3	14
Segment reporting	3	2	4	9
Discontinued operations	1	1		2
Discount rate disclosures	n/a	1		1
Going concern	n/a		2	2
Other comprehensive income	n/a		1	1
Discounting	n/a		2	2
Deferred taxes	n/a		1	1
Special purpose financial statements	n/a		1	1
Employee benefits	n/a		1	1
Intangibles	n/a		1	1
Hedge accounting for insurers**	n/a		1	1

* In the EFRAG agenda consultation, statement of cash flows and supply chain financing were listed as separate projects as the IASB did not include supply chain financing as a separate project in its RFI; ** Not presented as a project in the IASB RFI, ***In the EFRAG agenda consultation was noted that it could be combined with a project on pollutant pricing mechanisms.

- 7 Comments by respondents to the EFRAG consultation mostly supported the four projects identified as suitable for inclusion in EFRAG's proactive research agenda. Furthermore, as can be seen in the Table, the respondents also had a variety of suggestions but no recurrent widespread theme on alternative projects to be added to EFRAG's proactive research agenda. The analysis of the comment letters provided by constituents is included [here](#).

Summary of IASB's Third Agenda Consultation Decisions

- 8 The IASB decision on its agenda is an essential input while deciding on EFRAG's proactive agenda as EFRAG's proactive research work can either complement the IASB work on its chosen projects or address priority topics that the IASB cannot address at this stage.
- 9 The IASB discussed the comments received in response to its RFI at its [December 2021](#), [February 2022](#), [March 2022](#), and [April 2022](#) meetings.
- 10 The IASB decided to begin no new activities within the current scope of its work.
- 11 The IASB also decided to leave its current level of focus on its main activities largely unchanged but to:
- (a) slightly decrease the current level of focus on new Accounting Standards and major amendments to Accounting Standards;
 - (b) slightly increase the current level of focus on digital financial reporting; and
 - (c) slightly increase the current level of focus on understandability and accessibility of Accounting Standards, which will indirectly support consistent application of Accounting Standards.
- 12 The IASB decided not to make any changes to the list of criteria for assessing the priority of financial reporting issues that could be added to the IASB's work plan but to proceed with the list as proposed in the Request for Information.
- 13 The IASB decided not to reprioritise projects on its current work plan, but to continue working on those projects. Regarding the new projects to be added to the work plan, the IASB selected them from a shortlist of seven projects considered to be the highest priority by most respondents to the RFI (*climate-related risks, cryptocurrencies and related transactions, going concern disclosures, intangible assets, operating segments, pollutant pricing mechanisms, and statement of cash flows and related matters*). From these, the IASB decided to add **climate-related risk** to its workplan on maintenance and consistent application, two projects (**intangible assets and statement of cash flows and related matters**) to its research pipeline projects, and two projects (**operating segments and pollutant pricing mechanisms**) to the reserve list of its research pipeline. It did not add cryptocurrencies and related transactions and going concern to its active agenda.
- 14 The new IASB projects will start when resources become available and are expected to start before the next IASB agenda consultation. These projects will start with researching the appropriate scope to determine what needs to be done.

Analysis and recommendations of possible projects for the EFRAG proactive research agenda

- 15 The EFRAG agenda consultation identified four projects as suitable for EFRAG's future proactive agenda (i.e., connecting financial and sustainability reporting, starting with climate risk and its financial implications; digital reporting; operating segments; and supply chain financing-including reverse factoring). The feedback to the EFRAG agenda consultation confirmed the priority of these four projects. In addition to these, seven other topics were identified to be of the highest or high

priority for European Stakeholders in the EFRAG agenda consultation (i.e., 11 projects are further evaluated below).

- 16 The overarching consideration in the recommendations made is whether EFRAG can successfully conduct research on the suggested projects in a manner that is impactful/value-adding and timely for future consideration by the IASB and with consideration of:
- (a) whether there is a well-defined research problem and a gap being filled;
 - (b) the ready availability of empirical data/fact patterns including through IFRS IC and post-implementation review issues that can substantiate the research problem;
 - (c) whether research will address issues before the IASB can do so;
 - (d) possibility of developing targeted solutions;
 - (e) the availability of prior EFRAG research/positions; and
 - (f) the capacity to outsource aspects of the research or develop it collaboratively with stakeholders and/or other interested organisations.

Projects added to IASB maintenance and consistent application workplan (climate-related risk)

- 17 *Climate-related risk*: The IASB has decided to add climate-related risk to its maintenance and consistent application workplan and in so doing will start addressing a matter that is a priority for European stakeholders.
- 18 Respondents to the IASB's RFI affirmed that there are deficiencies in reporting about climate-related risks relating to inconsistent application of the IFRS Standards and insufficient disclosures. However, the IASB is unclear about the underlying causes of these deficiencies and the best way to address them, without further investigation. Therefore, the IASB decided to add a 'maintenance and consistent application' project on climate-related risks that aim to investigate the underlying causes of such deficiencies and consider whether any narrow-scope action might be needed.
- 19 Beyond climate-related risks, the IASB acknowledged that the connectivity between the IASB and the ISSB will be an overarching theme for the IASB in the coming years. The IASB considered that connectivity may affect a) new Accounting Standards and major amendments to Accounting Standards, b) digital financial reporting, c) understandability and accessibility of Accounting Standards and d) stakeholder engagement. Nonetheless, they recognised that capacity implications of connectivity are uncertain and are likely to evolve and some flexibility in terms of resources should be retained.
- 20 The scope of the IASB work on climate-related risk is uncertain. It also remains unknown at what pace the ISSB, which has published Exposure Drafts on General Requirements for Sustainability-related Financial Disclosures and Climate-related risk (IFRS S1 and S2), might address sustainability issues (ESG) more broadly beyond climate risk in a manner that can allow a holistic assessment of connectivity. At the same time, at the EU level, EFRAG has published 13 Exposure drafts that cover a complete set of sustainability topics. This presents an opportunity for EFRAG to take a lead in the research on the connection between financial and sustainability reporting in a manner that includes but is not limited to the financial

implications¹ of climate-related risk. Hence, it is recommended that 'connection between financial and sustainability reporting' be the first new project of EFRAG's proactive research agenda. Of note, EFRAG FR TEG held a separate session and discussed the possible scope of such a project and the conclusions of this discussion are reflected further below.

Projects added to IASB research pipeline projects (intangible assets, statement of cash flows and related matters)

- 21 *Intangible assets:* As noted in the EFRAG agenda consultation, the EFRAG Discussion Paper *Better Information for Intangibles* provides sufficient thought leadership for consideration by the IASB. Thus, there is no need for an extended proactive project on intangibles after the completion of the consultation and outreach. However, EFRAG could consider the publication of Bulletins or similar documents, to leverage the findings of outreach on the Discussion Paper.
- 22 *Statement of cash flows and related items:* In light of the IASB decision on its research agenda, it is recommended that the statement of cash flows be added to the EFRAG proactive agenda as the second new project as it can encompass supply financing arrangement which is deemed suitable as a proactive research project. The IASB RFI considered supply chain financing as possibly being addressed within a cash flow statement project indicating that a possible approach was to undertake a targeted project to improve aspects of the statement of cash flows, including information about non-cash movements, such as arising from supply chain financing arrangements. If the statement of cash flows is to be added to EFRAG's proactive agenda, it might be necessary to have a targeted scope that will allow the completion of the project before the IASB commences its research. The recommendations for the possible scope of a project on the statement of cash flow and related items are discussed further below.

Projects on IASB reserve list of research pipeline projects (operating segments, pollutant pricing mechanisms)

- 23 *Operating segments:* The EFRAG agenda consultation assessed operating segments as one of the four topics suited for proactive research. Furthermore, it is a high priority and broad support for users and has a clearly articulated problem statement (i.e., addressing the challenges associated with current criteria for identifying reportable segments as identified in the IFRS PIR on IFRS 8), has cross-cutting implications (i.e., can address some issues to the reporting on goodwill and need for cohesiveness with PFS line-item presentation that have been raised in EFRAG comment letters).
- 24 Despite reservations expressed by EFRAG TEG members on improvements that could be achieved while retaining the management approach, the topic was considered suitable for inclusion in the reserve list of projects. EFRAG FR TEG recommended that before starting a project on operating segments, EFRAG should conduct research into the causes of users' concerns about the information on

¹ In 2020, The IASB published educational material related to effects of climate risk on financial statements. <https://www.ifrs.org/content/dam/ifrs/supporting-implementation/documents/effects-of-climate-related-matters-on-financial-statements.pdf>

Beyond climate risk, in 2021, an educational paper by FASB addressed the intersection of ESG matters and accounting standards

https://www.fasb.org/page/ShowPdf?path=FASB_Staff_ESG_Educational_Paper_FINAL.pdf&title=FASB%20Staff%20Educational%20Paper-Intersection%20of%20Environmental,...

segment reporting that entities provide and what changes in identifying segments are possible while retaining the management approach.

- 25 *Pollutant pricing mechanisms:* The EFRAG agenda consultation had suggested pollutant pricing mechanisms might be addressed in considering climate-related risks in the context of a project on the connection between financial and sustainability reporting. However, EFRAG FR TEG observed that the pollutant pricing mechanisms topic does not fit with the connectivity project as envisioned. Hence, it is recommended that this project be added to the EFRAG's reserve list of projects as it is also on the IASB reserve list.
- 26 As noted above, one of these two reserve list projects will only be undertaken as a second priority project after the projects on connecting financial and sustainable reporting and statement of cash flows and related items are initiated and after some exploratory work to further define the research problem.

IASB shortlisted projects not added to the IASB agenda (cryptocurrencies and related transactions)

- 27 *Cryptocurrencies and related transactions:* EFRAG supported adding cryptocurrencies and related transactions to the IASB active agenda but not to EFRAG's proactive agenda as the 2020 Discussion Paper and the [Recommendations and Feedback Statement](#) published in April 2022 suffices as an input for consideration by the IASB. The IASB did not include cryptocurrencies and related transactions in its agenda, but the IASB discussion and staff analysis signalled that these transactions might be addressed within the comprehensive review of intangible assets or separately in the future if excluded from the scope of IAS 38 and/or if these transactions become significantly more pervasive. Furthermore, EFRAG's Recommendation and Feedback statement suggested a two-step approach by the IASB. Along similar lines, in its meeting in April 2022, a member of the EFRAG FR Board suggested that EFRAG could do further monitoring work that paves the way for possible future standard setting. Hence, it is recommended that, as this was one of the seven highest-priority topics for most respondents to the IASB RFI and EFRAG agenda consultation, subject to resource constraints, there should be a possibility to leverage the EFRAG Discussion paper and develop EFRAG Secretariat Briefing Bulletins (e.g., on determining fair value consistent with one of the recommendations in the EFRAG Recommendations and Feedback Statement).
- 28 *Going concern:* EFRAG supported the addition of going concern to the IASB agenda but this was not deemed to be a suitable research topic. Respondents to the IASB's RFI raised a few issues on going concern though the need for improved disclosures about the going concern assumptions was the greatest concern. The IASB's staff considered that such a project could be narrowly scoped to focus on clarifying existing disclosure requirements. More specifically, the project could consider incorporating into IAS 1 *Presentation of Financial Statements* the 2010 and 2014 Agenda Decisions of the IFRS Interpretations Committee about going concern disclosures and adding more specificity to the requirement in paragraph 25 of IAS 1².

² IAS 1, 25 When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

- 29 The IASB decided at its April 2022 meeting not to add this project to the IASB's workplan due to the capacity constraints as well as the existence of other higher priority projects. However, the IASB noted that other current and potential projects could result in providing users with better information to assess an entity's ability to continue as a going concern, such as projects that are expected to provide better information about the entity's liquidity and solvency (for example, the project on the statement of cash flows and related matters). It is not recommended to add a going concern project to the EFRAG proactive agenda. However, the going concern disclosures could be considered in the future by the European Lab that focuses on identifying good reporting practices.

Other projects on the IASB RFI considered as high-priority by EFRAG but not shortlisted or added to the IASB agenda (discontinued operations and disposal groups, variable consideration)

- 30 *Discontinued operations and disposal groups:* The EFRAG agenda consultation included discontinued operations and disposal groups as one of the highest priority projects for European stakeholders for inclusion in the IASB agenda. The IASB RFI had proposed the following as the possible scope of a project on discontinued operations and disposal groups
- (a) Reconsider the single line-item presentation of discontinued operations and the disclosure requirements (M)
 - (b) Undertake a comprehensive review of the Standard (M)
- 31 However, in the EFRAG agenda consultation, this project was not identified as suitable for proactive research and there was minimal support from respondents for the inclusion of this project on either the IASB agenda or on EFRAG's proactive research agenda. Hence, it is not recommended to add discontinued operations and disposal groups to the EFRAG proactive agenda.
- 32 *Variable consideration:* The project on variable consideration was included as one of the six highest priority topics cited in the EFRAG agenda consultation but it was not considered as one of the highest priority topics by respondents to the IASB RFI and EFRAG agenda consultation. Furthermore, the forthcoming EFRAG Discussion Paper *on variable consideration* provides sufficient thought leadership for consideration by the IASB and, thus, there is no need for an extended proactive project on variable consideration after the consultation and outreach on the Discussion Paper.

Projects suggested by EFRAG that were not on the IASB RFI as separate projects (digital reporting, hedge accounting for insurance liabilities)

Digital reporting

- 33 The EFRAG agenda consultation presented digital reporting as a separate project that is suitable for EFRAG proactive research. The EFRAG agenda noted that in several of its recent comment letters, EFRAG has recommended that the IASB better considers the effect on technology in standard setting. A project could focus on assessing how the digitisation of reported information (including the ESMA ESEF and other forms of digital reporting) can be incorporated into the cost-benefit analysis of IFRS requirements.
- 34 On the other hand, the IASB RFI presents digital reporting as a cross-cutting theme rather than as a separate topic and suggests that further to its current efforts (i.e., updating the taxonomy for IFRS Standards, IFRS for SMEs and Management Commentary and publishing related educational material) the IASB could

- (a) explore how advances in technology are changing the way investors consume information and assess the extent to which improvements are needed to the IFRS Taxonomy and the way in which the Board writes the Standards.
 - (b) work more with regulators and other bodies to increase global adoption of the IFRS Taxonomy. This work would support the transparency, accountability and efficiency of financial markets given the trend towards digital financial reporting.
 - (c) work more with companies, regulators, auditors, investors, data aggregators and others to improve the quality of electronic data and consistency in application of the IFRS Taxonomy.
 - (d) provide more educational materials and programmes to support the understanding and use of the IFRS Taxonomy.
- 35 Based on the feedback to the RFI, the IASB staff suggested that the IASB could undertake
- (a) Accounting Standards—for example, considering whether increased digital consumption of financial information should drive changes in financial reporting requirements which have historically been based on how much information can be presented and disclosed in a paper-based format.
 - (b) the IFRS Accounting Taxonomy—for example, identify and address causes of errors and unnecessary extension
 - (c) digital ecosystem—for example, engage with and support stakeholders to facilitate digital consumption of financial reports. This could include working with regulators to support adoption of the IFRS Accounting Taxonomy and preparers to support quality outcomes in applying the IFRS Accounting Taxonomy. We acknowledge that the actions of these stakeholders are outside the IASB's control. However, we think that the lack of coordinated action in digital reporting carries risks for capital markets. In addition, recent trends have shown increased engagement by stakeholders on digital reporting. We think that in the short term (for example, the next two years) the IASB could leverage this engagement to improve the state of digital reporting globally.
- 36 The IASB has been active in digital reporting and in February 2022, the IASB decided to slightly increase its efforts on digital reporting. Furthermore, digitisation will be an integral part of the reporting of sustainability information (i.e., for both ISSB and ESRS standards) and there are several publications addressing matters associated with the production and consumption of digital reporting information. This raises the question of what scope of EFRAG research would be incremental to the variety of existing initiatives.
- 37 The proposed aspect in the EFRAG agenda consultation of how the digitisation of reported information (including the ESMA ESEF and other forms of digital reporting) can be incorporated into the cost-benefit analysis of IFRS requirements does not seem to fit into the traditional research topic. Instead, it could be addressed by incorporating a review of how digitisation can be incorporated into the endorsement criteria. For these reasons, it is not recommended to add digital reporting as a proactive research project. However, this should not preclude EFRAG from engaging in ongoing monitoring and capacity building on digital reporting including through the publication of EFRAG Secretariat Bulletins related to specific aspects of digitisation in corporate reporting. For example, EFRAG will publish a report from the May 2021 European Accounting Association symposium on Digitisation.

Hedge accounting for insurers

- 38 The EFRAG agenda consultation proposed hedge accounting for insurers as a possible topic for the IASB agenda, but it was not assessed as one of the suitable ones for the EFRAG proactive research agenda. The following justification was provided for this potential project.
- (a) In its endorsement advice on IFRS 17 Insurance Contracts, EFRAG identified and assessed several challenges with the application of the requirements in IFRS 9 to insurance contracts.
 - (b) The suggested project would aim at providing more guidance on how to reflect the dynamic nature of the risk management activities of insurers in dealing with financial and insurance-related risks inherent to insurance liabilities.
- 39 There was minimal support from respondents for the inclusion of this project on either the IASB agenda or on EFRAG's proactive research agenda. In addition, as part of the preparation for the endorsement advice of IFRS 17, EFRAG has already conducted outreach and technical discussions with insurance and hedge accounting experts to explore the opportunities for hedge accounting offered by IFRS 9 and IAS 39 (including the carve-out). Hence, it is not recommended to add hedge accounting for insurers to the EFRAG proactive agenda as a separate research project. However, subject to resources, EFRAG can conduct a targeted study or outreach on this topic.

Recommendation of new projects for the EFRAG proactive research agenda - Issues Paper

40 The Table below summarises the assessment of 11 projects deemed to be high priority and recommendations made thereafter

Project	Recommend to add to or extend as a proactive project	Possible alternative non-proactive research outputs
Connection between financial and sustainability reporting, starting with financial implications of climate risk	Yes	
Intangibles	No extension after the outreach and consultation period	Possible Briefing bulletins based on feedback during outreach on EFRAG DP
Cash flow statement and related items	Yes	
Operating segments	Reserve list	
Pollutant pricing mechanisms	Reserve list	
Cryptocurrencies and related transactions	No extension	Only a Briefing bulletin on valuation that is consistent with the suggestion for educational material made in EFRAG Recommendation and Feedback Statement. To limit the use of EFRAG resources, this can be done in partnership with expert organisations
Going concern	No	Could be a European Lab project
Discontinued operations and group disposals	No	
Variable consideration	No extension after the outreach and consultation period	
Digital reporting	No	Briefing bulletin on EAA, ongoing monitoring
Hedge accounting for insurers	Maybe addressed as a targeted study subject to resources	Outreach survey to insurance entities

Preliminary views on the scope of recommended projects

- 41 Below is an analysis of the preliminary scope of the following two recommended projects
- (a) Connection between financial and sustainability reporting, starting with the financial implications of climate risk; and
 - (b) Statement of cash flows and related items.
- 42 In addition, a further description of issues on operating segments and pollutant pricing mechanisms that are on a reserve list is provided below. A preliminary scope of these two projects is not provided as further exploratory work is needed.

Recommended Project 1: Connecting financial and sustainability reporting

EFRAG comments in its agenda consultation

- 43 Climate-related financial implications are to be considered as a starting point. However, the aim should be to address environmental, social, and governance (ESG) matters comprehensively.
- 44 The following in relation to a project on climate risk could be considered:
- (a) Disclosure on the alignment of the assumptions used for impairment and amortisation of fixed assets with the implications of the Paris Agreement.
 - (b) Disclosures about how companies factor climate-related risks into the best estimate of provisioning amounts.
 - (c) Assessment of IFRS Standards on provisioning for future risks, considering
 - (i) the broader implications of climate transition risk,
 - (ii) insignificant climate-related contingent liabilities, and
 - (iii) the impact of biodiversity.
- 45 The project could investigate the reasons for the observable evidence (e.g., 2021 Carbon Tracker report) that company accounts are leaving out material impacts linked to climate change transition risk (e.g., regulatory responses) and physical risk and determine whether further standard setting is required to address this situation.

IASB RFI description and subsequent analysis on the scope of a possible project on climate-related risk

- 46 The IASB RFI proposed the follow possible scope:
- (a) Lower the threshold for disclosure of information about sources of estimation uncertainty, including the effect that climate-related risks have on that uncertainty (M)
 - (b) Broaden the requirements in the Standard on impairment for cash flow projections to be used in measuring value in use when testing assets for impairment (S)
 - (c) Develop accounting requirements for pollutant pricing mechanisms (L).

Possible scope of this project

- 47 At its May 2022 meeting, EFRAG FR TEG had a separate session and detailed discussion on the possible scope of a project on the connection between financial and sustainability reporting.

Timing of the project

- 48 EFRAG FR TEG noted that major developments are occurring in sustainability reporting and a key question for the project would be the timing. They mentioned the following:
- (a) it would be beneficial to wait for the final ESRS and ISSB standards and to observe the first sustainability statements produced by entities, in order to be able to properly discuss all the challenges of connectivity;
 - (b) discussing the topic before the first set of standards of the ESRS and ISSB are finalised could lead to questioning some of the disclosure requirements in those standards.

Narrow versus broad connectivity

- 49 Members questioned whether the project should work in the direction of proposing some form of integrated reporting, i.e. holistically explaining how the enterprise is creating value.
- 50 It was observed that due to the complexity of the topic, it was necessary to distinguish between narrow connectivity (operational techniques to foster cohesiveness between the two documents) and broader connectivity (conceptualisation of how to enhance the integration between financial information and sustainability information, exploring advantages and disadvantages of integrated reporting, the role of the management commentary, etc.).

First step

- 51 In order to define the ambitions of the project in a way that would produce reasonable results, EFRAG FR TEG members discussed a preliminary step of the research, before being able to further conceptualise possible approaches to connectivity. In this first step EFRAG would:
- (a) investigate the users' needs for connectivity, possibly starting from a few concrete examples (such as GHG emissions and turnover/capex/opex taxonomy indicators);
 - (b) develop a definition of connectivity that would inform the subsequent steps of the project. Such a definition would have to be agreed with the EFRAG Sustainability Reporting TEG (Board).
- 52 To further contextualise such a first step, members noted:
- (a) that today preparers produce already financial statements and management commentary and there are a number of anchor points between those two documents, but still nobody has asked to develop connectivity between them so far. It would be necessary to understand why there is a need for connectivity and what is the difference with the management commentary today. Also, a concept of cohesiveness of the assumptions used in the two documents could be considered as a possible concept for connectivity;
 - (b) there is a different data quality in sustainability and financial reporting, as well as the use of different conceptual frameworks. Such differences would also play a role in the concrete possibility to create connectivity. It would have to be clear to the users that despite being connected, the two dimensions are still different in nature.
- 53 As CSRD and ESRS requirements are comprehensive, members called for more education before starting a wider discussion on connectivity.
- 54 Furthermore, the importance of distinguishing between conceptual and institutional connectivity was highlighted. In the EFRAG agenda consultation, it was mentioned that the involvement of the EFRAG SR TEG and EFRAG SR Board in the project should also be considered, in order to effectively serve connectivity from both the

financial reporting and sustainability reporting perspective, while recognising that the EFRAG sustainability reporting bodies will focus on the finalisation of the complete set of ESRS also in 2023.

- 55 Finally, as noted in the EFRAG agenda consultation, EFRAG could consider launching a European Lab FR/SR project to identify reporting practices that exemplify connectivity between financial and sustainability information (i.e. climate-related reporting).

Recommended Project 2: Statement of cash flows and related items

EFRAG recent positions

- 56 The 2020 EFRAG comment letter response to the IASB's exposure draft ED/2019/7 General Presentation and Disclosures called for a separate project on IAS 7 with the objective of having a comprehensive review of the challenges that arise in practice (e.g., financial institutions) and improve consistency with the new content and structure of the statement of profit or loss:

- 57 EFRAG welcomes the IASB's efforts to make targeted improvements to IAS 7, however, we consider that there is a need for a separate project on IAS 7 with the objective of having a comprehensive review of the challenges that arise in practice, particularly in regard to some financial institutions (e.g., banks and life insurers) where the statement of cash flows is not considered useful. Therefore, EFRAG suggests that the IASB:

- (a) makes further research work on having a statement of cash flows that is structured differently for financial institutions to ensure that it provides relevant information to users and mentioned in EFRAG's Discussion Paper The Statement of Cash Flows: issues for Financial Institutions issued in 2015;
- (b) considers the issues raised in the UK FRC discussion paper Improving the Statement of Cash Flows; and
- (c) improves consistency and eliminates current presentation inconsistencies between the statement of financial performance and the statement of cash flows in this separate project on IAS 7 (e.g. interest revenue from cash and cash equivalents is classified in the financing category in the statement of profit or loss, whereas all interest received is classified as cash flows from investing activities in the statement of cash flows as explained in paragraph BC197 of the Basis for Conclusions).

Possible scope of the project

- 58 In its comment letter to the Exposure Draft ED/2021/10 Supplier Finance Arrangements, EFRAG included in *Appendix 2 – Further recommendations on arrangements related to working capital and liquidity management* a number of issues to be addressed (see comment letter [here](#)).

- 59 EFRAG TEG members proposed to consider the following topics under a research project on the statement of cash flows:

- (a) Redefining fundamental concepts like classification of cash flows into operating, investing and financing or the definition of cash or cash equivalents;
- (b) Review how to classify common transactions like the government grants or purchase of assets with deferred payment terms;
- (c) Review non-cash transactions like supplier finance arrangements where a bank is paying on behalf of the entity; and
- (d) Review cash flow related transactions beyond the statement of cash flows.

IASB RFI description and subsequent analysis on the scope of a possible project on the statement of cash flows and related items

- 60 The IASB RFI proposed the following possible
- (a) Develop more effective disclosures about ongoing maintenance expenses and growth expenditure (S)
 - (b) Consider whether to remove the requirement for financial institutions to produce a statement of cash flows (S)
 - (c) Undertake a targeted project to improve aspects of the statement of cash flows, including information about non-cash movements, such as arising from supply chain financing arrangements (M)
 - (d) Seek to develop a statement of cash flows for financial institutions (M)
- 61 Many respondents to the IASB's RFI considered that it was a high priority to solve existing deficiencies though they had mixed views about the nature and extent of those deficiencies. For instance, some supported a comprehensive review of IAS 7 Statement of Cash Flows while other respondents were in favour of a targeted approach on specific issues. Those issues include both presentation issues (such as the classification of cash flows into operating, investing and financing activities) and other issues (such as improved disclosures about non-cash financing). Also, the project could include some issues relating to the statement of cash flows that arose in the Primary Financial Statements project but were outside the scope of that project.
- 62 The IASB's staff considered that the scope of such a project should initially include all matters raised by respondents and related to the statement of cash flows. In the research phase of the project, they could consider those issues further, to determine whether all such issues should remain within the project's scope.

Recommended Reserve Project 1: Operating segments

EFRAG comments in its agenda consultation

- 63 Monitor developments in the PFS project and consider cohesiveness with operating segments (Medium project)

IASB RFI description and subsequent analysis on the scope of a possible project on operating segments

- 64 The IASB RFI noted that investors with concerns had proposed
- (a) a potential project should consider improvements to the criteria for aggregating operating segments into reportable segments. The investors suggested that the reliance on management judgement results in insufficient disaggregation;
 - (b) repeated changes to the composition of reportable segments affect comparability between periods for a reporting company;
 - (c) the Board should require disclosure of additional line items by segment. These lines could include revenue, assets, equity, capital expenditures, business combinations, non-current assets held for sale and discontinued operations. These additional disclosures should be required regardless of whether the information is regularly provided to the chief operating decision maker;
 - (d) the Board should develop requirements for disclosure of a minimum set of key performance indicators by segment to allow basic analysis— for example, margins, turnovers and returns.
- 65 The April 2022 IASB paper indicates that a project on operating segments should conduct research into:
- (a) The underlying causes of users' concerns about the granularity of segment information that entities provide. In this regard, there is likely to be a need to also do some research on how operating segments are identified because, in practice, the aggregation question is tightly tied to the identification of operating segments question; and
 - (b) The feasibility (including costs to preparers) of potential solutions that could be implemented without reconsidering the use of the management approach to determine an entity's operating segments.

Recommended Reserve Project 2: Pollutant pricing mechanisms

IASB RFI description and subsequent analysis on the scope of a possible project on pollutant pricing mechanisms

- 66 To encourage a reduction in the production of greenhouse gases, governments have been developing pollutant pricing mechanisms—for example, emission trading schemes. Some stakeholders, including investors, said that the lack of accounting requirements in IFRS Standards for these mechanisms has led to diversity in practice in reporting their effects on companies.
- 67 Emission trading schemes create tradeable emission allowances. One common form of emission trading scheme is a cap-and-trade scheme. Comments from stakeholders included concerns about how companies:
- (a) recognise and initially measure emission allowances received from the scheme administrator for nil or nominal consideration;
 - (b) subsequently measure emission allowances held, including both those held to cover past or future emissions of pollutants and those held for investment purposes;

- (c) recognise and measure a liability to remit emission allowances to cover pollutants already emitted, including deciding:
 - (i) whether a liability exists and when to recognise it; and
 - (ii) how to measure the liability;
 - (d) present assets, liabilities, income and expenses resulting from pollutant pricing mechanisms; and
 - (e) disclose information about pollutant pricing mechanisms.
- 68 The April 2022 IASB paper indicates that a project on pollutant pricing mechanisms would need to consider whether to address:
- (a) all types of pollutant pricing mechanisms, or only some, such as emission trading schemes; and
 - (b) accounting by traders and scheme administrators, or limit the project to entities that are required to (or choose to) participate in such schemes.

If the project is undertaken by the IASB, these scoping issues will be considered in the research phase of the project.

Questions for EFRAG FR Board

- 69 Does EFRAG FR Board agree with the criteria for the selection of projects described in **paragraph 16**?
- 70 Does EFRAG FR Board agree with the two recommended projects for EFRAG's proactive agenda (i.e., connection between financial and sustainability reporting; and statement of cash flows and related items)? If not, what other project/s does EFRAG FR Board recommend and what is the proposed scope of this/these alternative project/s?
- 71 Does EFRAG FR Board agree with the creation of a reserve list on EFRAG's proactive agenda and to include the two suggested projects (operating segments and pollutant pricing mechanisms on this list)?
- 72 For *connecting financial and sustainability reporting, starting from climate-related financial implications*, EFRAG will be following as part of its reactive work the activities of the IASB future project on climate risk. The IASB will run a maintenance and consistent application project on climate-related risks that aims to investigate the underlying causes of the deficiencies in reporting on climate-related financial implications in current financial statements and consider whether any narrow-scope action might be needed. Do EFRAG FR Board members consider that the EFRAG project should cover the areas described in paragraphs 47 to 55 above? Or only part of them (please specify)?
- 73 Does EFRAG FR Board have any initial view on what should be the scope of the other selected project as well as the projects included in the reserve list?
- 74 Do EFRAG Board members have other suggestions or recommendations or comments on alternative non-proactive research outputs as summarised in the Table below **paragraph 40**?