

EFRAG UPDATE

EFRAG MEETING PORTUGUESE STAKEHOLDERS

5 February 2019



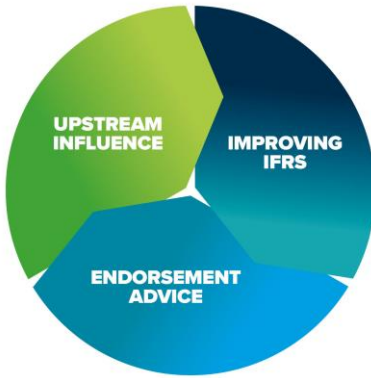
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DISCLAIMER

The views expressed in this presentation are those of the presenter, except where indicated otherwise. 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.

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OVERVIEW OF EFRAG'S ACTIVITIES



- EFRAG's core activities
 - Endorsement advice on new IFRSs
 - Influencing development of IFRS
 - Accounting research



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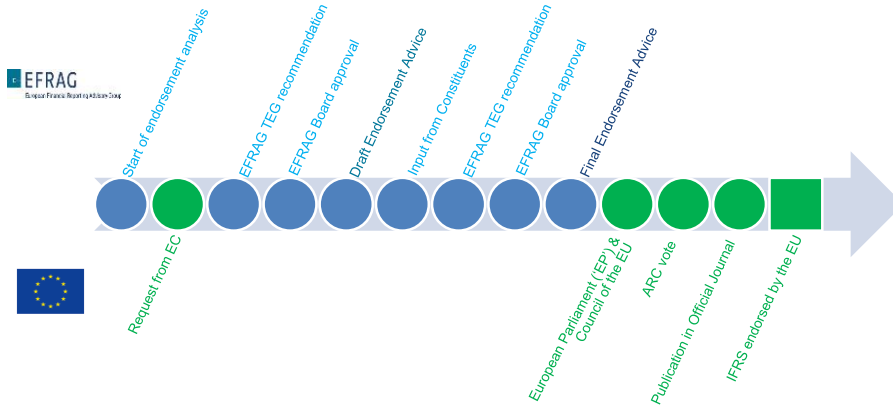
EU ENDORSEMENT PROCESS

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EU ENDORSEMENT

EFRAG'S ROLE IS TO ADVISE THE EU INSTITUTIONS



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KEY FEATURES OF EU ENDORSEMENT

EC'S 'FITNESS CHECK' EXAMINING ASPECTS OF PROCESS

- Endorsement criteria¹
 - Technical criteria
 - Conducive to European Public Good
- Powers to modify IFRS Standards
 - Can reject an IFRS Standard, 'carve-out' (i.e. reject part of an IFRS Standard), 'top-up' and/or amend effective date
 - Cannot 'carve-in' (i.e. replace IASB's requirements with EU requirements)¹

Note 1 The EC Fitness Check asked questions on (1) adding a sustainability test to the current endorsement criteria and (2) amending the IAS Regulation to provide the EC with 'carve-in' powers

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EFRAG'S ENDORSEMENT ADVICE

SCOPE OF EFRAG'S ADVICE

- Technical criteria in the IAS Regulation (relevance, reliability, comparability, prudence, true and fair view)
- Conducive to the European public good:
 - Impact on financial stability
 - Impact on EU competitiveness
 - Impact on EU economic development
 - Other specific areas as requested by the EC

Costs and
benefits



EFRAG's European public good assessment is supported by a comprehensive impact assessment which also provides insight into the practical implementation and business challenges

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STATUS OF MAJOR NEW IFRS STANDARDS

STATE OF PLAY WITH IASB'S 'BIG-4' NEW STANDARDS

Standard	IASB's publication date	EFRAG's endorsement advice	Final EU endorsement	IASB effective date
IFRS 15 <i>Revenue from Contracts with Customers</i>	May 2014	March 2015	Sept 2016	2018
IFRS 9 <i>Financial Instruments</i>	July 2014	Sept 2015	Oct 2016	2018
IFRS 16 <i>Leases</i>	Jan 2016	March 2017	Oct 2017	2019
IFRS 17 <i>Insurance Contracts</i>	May 2017	TBC	TBC	2022*

* based on a tentative IASB decision to defer the original effective date by 1 year

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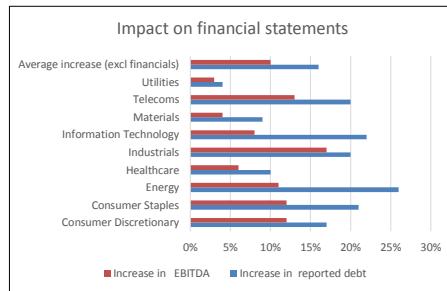
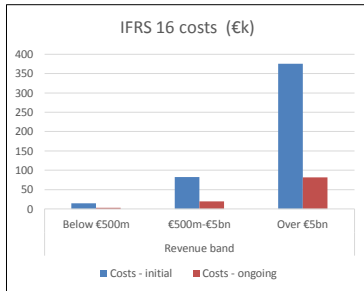
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HOW DOES IMPACT ASSESSMENT SUPPORT IMPLEMENTATION?

IFRS 16 'LEASES' AS A CASE STUDY

- Impact assessment provides insights into:
 - Implementation costs
 - Effect on the financial statements



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HOW DOES IMPACT ASSESSMENT SUPPORT IMPLEMENTATION?

IFRS 16 'LEASES' AS A CASE STUDY

- Impact assessment provides insights into **potential wider effects**, e.g.
 - **25%** of lessees expect to have to renegotiate borrowing covenants (most expect this to be straightforward)
 - **50%** of analysts expect to continue to make adjustments to the IFRS 16-based numbers
 - Modest decline (up to **3%**) in demand for leases projected along with limited renegotiation of lease terms
- Impact assessment provides insights areas of **technical complexity** and/or high levels of **judgement** e.g.
 - Definition of a lease
 - Discount rate



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ENDORSEMENT STATUS REPORT

IASB/IFRIC documents not yet endorsed [Revisions to this schedule are marked in bold]	EFRAG draft endorsement advice	EFRAG endorsement advice	ARC Vote	When might endorsement be expected	IASB Effective date	Expected to be endorsed before the effective date
IFRS STANDARDS¹ AND INTERPRETATIONS						
IFRS 17 Insurance Contracts (issued on 18 May 2017)					01/01/2021	
AMENDMENTS						
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017)	✓ 15/12/2017	✓ 24/04/2018	✓ 31/08/2018	* Q1 2019	01/01/2019	▼
Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017)	✓ 26/01/2018	✓ 21/03/2018	✓ 08/09/2018	* Q1 2019	01/01/2019	▼
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018)	✓ 21/03/2018	✓ 28/05/2018	✓ 08/10/2018	* Q1 2019	01/01/2019	▼
Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)	✓ 06/07/2018	✓ 12/10/2018	* 2019	* 2019	01/01/2020	▲
Amendment to IFRS 3 Business Combinations (issued on 22 October 2018)	✓ 14/01/2019	* Q1 2019	* 2019	* 2019	01/01/2020	▲
Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018)	✓ 12/12/2018	* Q1 2019	* 2019	* 2019	01/01/2020	▲

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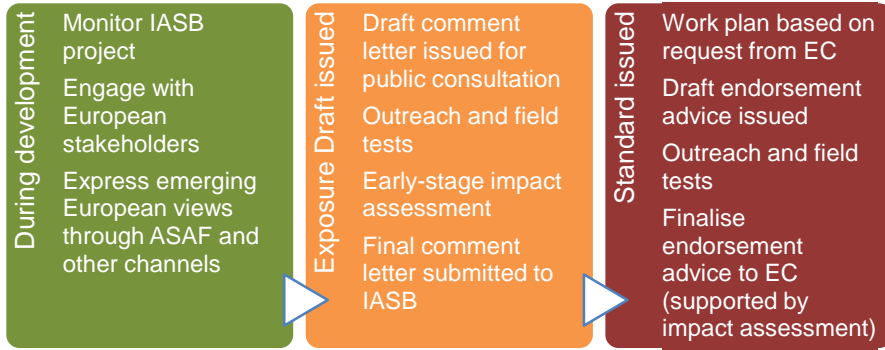
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INFLUENCING IFRS DEVELOPMENTS

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EFRAG'S APPROACH TO INFLUENCING IFRS



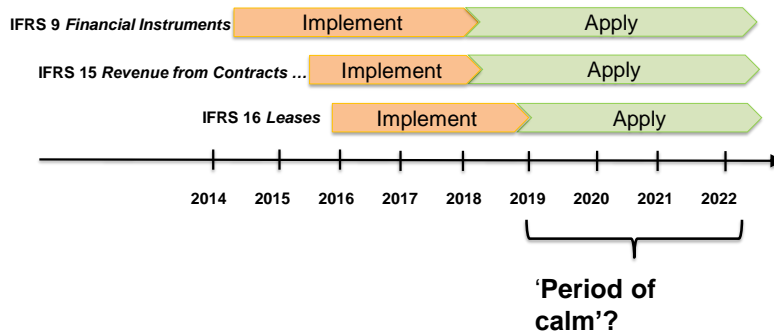
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IFRS 'STATE OF PLAY'

MAJOR NEW IFRS STANDARDS AND THE 'PERIOD OF CALM'*

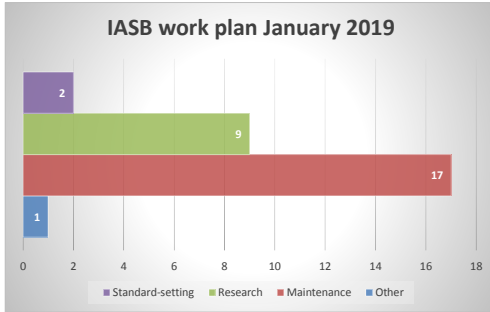


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IASB'S CURRENT AGENDA



Research projects (selected):

- **Financial Instruments with Characteristics of Equity**
- BCUCC
- Principles of Disclosure
- Goodwill and Impairment
- Dynamic Risk Management

Standard-setting projects:

- **Primary Financial Statements**
- Rate-regulated activities

Unlikely that IASB will issue a major new standard before 2021

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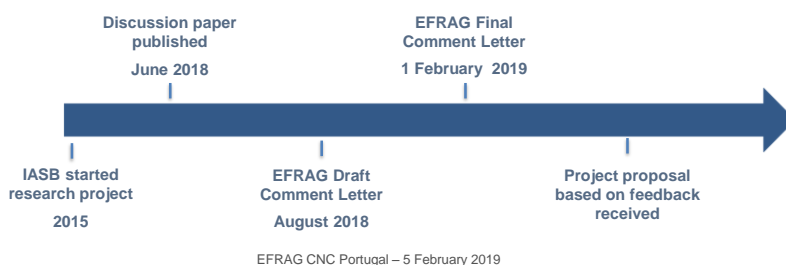
FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF EQUITY

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DISTINCTION BETWEEN DEBT AND EQUITY (FICE)

FOR MOST FINANCIAL INSTRUMENTS IAS 32 WORKS WELL...BUT

- IAS 32 is 'rule-based' in some areas, has been amended and interpreted several times and includes various exceptions
- The IFRS Interpretations Committee received several questions related to the application challenges of IAS 32
- Financial innovation has been stretching the current requirements to their limits (e.g. contingent convertible bonds)

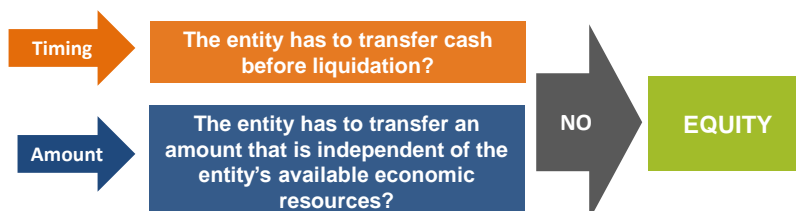


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NEW CLASSIFICATION APPROACH AND MORE DISCLOSURES

A NEW CLASSIFICATION APPROACH



MORE DISCLOSURES

The IASB outlines possible improvements to disclosures

- priority of claims on liquidation
- potential dilution of ordinary shares
- terms and conditions of financial instruments

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A NEW PRESENTATION APPROACH

PRESENTATION OF FINANCIAL LIABILITIES

Separate presentation of financial liabilities with 'equity-like' returns in the financial statements

Statement of financial performance: use of OCI

Statement of financial position: separate line item

PRESENTATION OF EQUITY INSTRUMENTS

Creation of subclasses of equity

- Ordinary Shares
- Other than ordinary shares
 - Non-derivatives (preference shares)
 - Derivatives (warrants)

IASB discussed ways to provide information on how returns are distributed among the different subclasses of equity instruments

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OUTREACH EVENTS IN EUROPE

EFRAG DISCUSSED FICE IN APPROXIMATELY 20 EVENTS

Most events taking place in partnership with European NSS or other organisations and in cooperation with the IASB, for example:

Joint outreach event in Milan EFRAG and OIC joint outreach event in Milan on 7 November 2018

Joint outreach event in Amsterdam EFRAG, the DASB and Eumedion joint outreach event in Amsterdam on 20 November 2018

Joint outreach event in Frankfurt EFRAG and ASCG joint outreach event in Frankfurt on 20 November 2018

Joint outreach event in Copenhagen EFRAG, FSR-Danish Auditors and Confederation of Danish Industry joint outreach event in Copenhagen on 23 November 2018

Joint outreach event in Brussels EFRAG, EFFAS, ABAB-BVFA and the IASB joint user outreach event in Brussels on 26 November 2018

Joint outreach event in London EFRAG and UK FRC joint user outreach event in London on 4 December 2018



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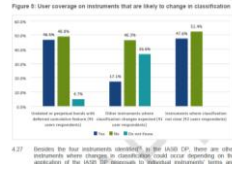
BULLETINS, WEBINARS AND VIDEOS

EFRAG ISSUED SEVERAL MATERIALS TO HELP CONSTITUENTS BETTER UNDERSTAND THE IASB DP AND ITS IMPACT

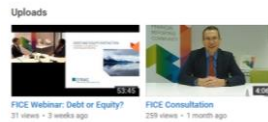
TWO BULLETINS



EARLY STAGE IMPACT ANALYSIS



WEBINARS & VIDEOS



EFRAG POSITION

WHAT HAS EFRAG RECOMMENDED TO THE IASB

- As respondents and participants in the outreach events had either disagreed with or expressed only limited support for the IASB's approach, EFRAG suggested targeted improvements to IAS 32
- EFRAG acknowledged that some constituents called for a more conceptual approach to distinguish debt from equity
- However, at this stage EFRAG has not identified any consensus on how to achieve this in a reasonable timeframe
- Thus, developing a more conceptual and less rule-based approach is going to be very challenging and any alternative that results in widespread classification changes is likely to prove controversial



PRIMARY FINANCIAL STATEMENTS

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PRIMARY FINANCIAL STATEMENTS

OVERALL OBJECTIVE OF THE PROJECT

- In 2014 the IASB started a project on *Primary Financial Statements* in response to a call from investors to improve financial statements
- The **objective of the project** is to discuss targeted improvements to the structure and content of the financial statements

“There is lack of disaggregation in the financial statements and lack of comparable financial information. There is a need for more standardisation”

Users

“Non-GAAP measures such as EBIT can be useful but there is a need for more transparency: definitions, comparatives and reconciliations to IFRS measures should be provided”

“I need flexibility to tell my company’s story and present items in a way that best reflects the circumstances of my business”

Preparers

“It is difficult to agree on a single definition of operating profit that afterwards can be applied to my specific business”

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PRIMARY FINANCIAL STATEMENTS

SCOPE OF THE PROJECT

Statement of Financial Performance	Statement of Cash Flows	Improving disaggregation
<ul style="list-style-type: none"> • Introduction of new subtotals (such as operating profit) to improve comparability 	<ul style="list-style-type: none"> • Eliminating classification options (interest/dividends) 	<ul style="list-style-type: none"> • Improve principles of disaggregation, including expenses presented by nature and by function • New disclosures on unusual and infrequent items • Minimum line items in the primary financial statements • Illustrative examples for primary financial statements for a small number of industries
<ul style="list-style-type: none"> • Allow the use of non-GAAP measures but bring more discipline to their use 	<ul style="list-style-type: none"> • Consistent starting point for the indirect method 	
<ul style="list-style-type: none"> • Better ways to communicate Other Comprehensive Income (OCI) 	<ul style="list-style-type: none"> • Cash flows related to associates/JVs 	

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IASB MAIN DECISIONS UNTIL NOW

- **To improve comparability:** 3 new subtotals for the statement of financial performance
 - *Operating profit or loss*
 - *Operating profit or loss and share of profit or loss of integral associates and Joint Ventures*
 - *Profit or loss before financing and income tax*
- **To allow flexibility:** entities may use non-GAAP measures in the financial statements but they should provide reconciliations to the most comparable IFRS measure and additional disclosures
- **Unusual or infrequent items:** new guidance for identification and disclosures on unusual or infrequent items
- **Associates and joint ventures:** present separately the share of profit from *integral* and *non-integral* associates and joint ventures

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Illustrative example

Statement of financial performance	
Revenue	x
Cost of good sold	x
Gross profit	X
Administrative and selling expenses	x
Operating profit or loss	X
Share of profit of integral joint ventures and associates	x
Operating profit or loss and share of profit or loss of integral associates and JVs	X
Changes in the fair value of financial assets	x
Dividend Income	x
Share of profit of non-integral associates and JVs	x
Profit or loss before financing and income tax	X
Expenses from financing activities	x
Other finance income	x
Profit before tax	X
Income tax expense	x
Profit for the year from continuing operations	X
Loss from discontinued operations	x
Profit for the year	X

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EFRAG WORK

- EFRAG has been closely monitoring the IASB discussions
 - **Regular updates** to the different EFRAG groups
 - **EFRAG research activities** on current presentation practice
 - **External presentations** on the use of Non-GAAP numbers
- EFRAG TEG considered the IASB discussions:
 - Some support for having more structure in the statement of financial performance and additional guidance on the use of non-GAAP measures
 - Concerns on having a rule based approach (too prescriptive)

By the end of 2019, as soon as the IASB publishes its consultation document, EFRAG will prepare its outreach activities, early-stage impact analysis, webinars and other material

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EFRAG RESEARCH PROJECTS

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WHAT IS AN EFRAG RESEARCH PROJECT?

PROACTIVE EUROPEAN INPUT TO FUTURE STANDARDS

- engaging with European constituents to understand their issues and how financial reporting affects them
- influencing the development of International Financial Reporting Standards
- providing thought leadership in developing the principles and practices that underpin financial reporting
- promoting solutions that improve the quality of information, are practical, and enhance transparency and accountability

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SOME EXAMPLES

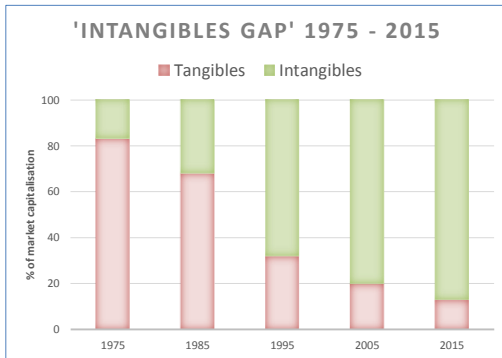
EFRAG's thought leadership: examples	
	Goodwill and Impairment
	Towards a Disclosure Framework for the Notes
	The Role of Business Model in Financial Statements
	The Conceptual Framework Bulletin series
	Classification of Claims
	Considering the Effects of Accounting Standards
	Cash Flow Statements: Issues for Financial Institutions
	Short Discussion Series (various topics)

CURRENT AGENDA

PROJECT	WHY INVESTIGATE?
Low and Negative Interest Rates	Accounting effects of prevailing low interest rate environment
Pensions	Concerns with application of IAS 19 in to 'hybrid plans'
Better Information on Intangible Assets	Increasing importance of intangible resources to company value and performance
Crypto Assets	Emerging issue, lack of guidance in IFRS
Contingent and Variable Consideration	Lack of guidance in IFRS
EC requests for advice on accounting for Equity Instruments	Concerns with effect of IFRS 9 on long-term investing in equities



BETTER INFORMATION ON INTANGIBLE ASSETS



Source: Ocean Tomo 2015 Annual Study of Intangible Asset Market Value for S&P 500 companies

Is it time for standard-setters to rise to the challenge and find ways of providing better information about intangibles in the financial statements?

or

Should we accept that the 'intangibles gap' will not be resolved through on-balance sheet accounting and focus instead on other reporting?

EC REQUEST FOR ADVICE ON EQUITY INSTRUMENTS

EFRAG IS RESPONDING TO EC'S REQUESTS FOR ADVICE ON IMPACT OF IFRS 9 ON LONG-TERM INVESTING





EUROPEAN CORPORATE REPORTING LAB

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EUROPEAN CORPORATE REPORTING LAB at EFRAG (European Lab)

- March 2018 EC Action Plan Financing Sustainable Growth: called on EFRAG to establish a European Corporate Reporting Lab as part of EFRAG
- Objective: to stimulate innovations in the field of corporate reporting in Europe by identifying and sharing good practices
- European Lab deliverables have no authoritative or normative status
- Different from the Non-Financial Reporting Directive and related Guidelines
- September 2018: the EFRAG General Assembly approved the establishment of the European Lab within EFRAG



**European Lab is about stimulating innovations
European Lab is not about setting standards or legislation**

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EUROPEAN CORPORATE REPORTING LAB at EFRAG (European Lab)

- European Lab: multi-stakeholder Steering Group (the European Lab SG) and project task forces for specific projects (European Lab PTFs)
- European Lab SG
 - Decides on the agenda of the European Lab
 - Appoints the Project Task Forces
 - Public agenda consultation envisaged for medium-term project, this may include:
 - Digitalisation
 - Implementation of EU's Non-financial Reporting Directive
 - Integrated reporting



Evaluation of the European Lab after three years

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EUROPEAN LAB Projects

- The European Lab PTFs are responsible for the project deliverables including the contents of the project reports
- European Lab projects:
 - Initial focus: non-financial reporting including sustainability reporting
 - First project on climate-related reporting
- Climate-related reporting
 - PTF to be appointed mid February
 - Expression of interests in outreaches and other form of consultations: **please join!**
 - First meeting PTF 26 February
- Public consultation including outreaches, surveys and other forms of stakeholder engagement are essential for the project work



5 March conference in Brussels
Fostering Innovation in corporate reporting- what is the role of the European Lab@EFRAG

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