

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG-CFSS. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG-CFSS. 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.

Primary Financial Statements Issues paper

Objective

- 1 The objective of the session is to:
 - (a) discuss EFRAG's outreach activities and in particular the events with the National Standard Setters;
 - (b) receive and share information about the results of outreach activities of the National Standard Setters and on any outreach events planned for the future; and
 - (c) discuss the application of the IASB proposals to separate financial statements.

EFRAG DCL consultation period

- 2 In light of the concerns surrounding COVID-19 and the restrictive measures from European governments, on 27 March, EFRAG sent a letter to the IASB requesting an extension to the public consultation phase of a number of issued publications.
- 3 Recognising the impact of the COVID-19 pandemic, on 17 April 2020, the IASB decided to extend the consultation period of the Exposure Draft *General Presentation and Disclosures* (ED) until 30 September 2020.
- 4 On 27 April 2020, EFRAG also adjusted its timeline on this project and extended the comment period for EFRAG DCL until 28 September 2020.

Field-testing activities

- 5 On 6 March 2020, EFRAG, in close coordination with European National Standard Setters and the IASB, launched a field-testing of the IASB's proposals included in the ED. The purpose of the field-testing is to identify potential implementation and application concerns, to determine whether there is a need for additional guidance, and to estimate the effort required to implement and apply the proposals.
- 6 On 23 March 2020, in light of the recent concerns surrounding COVID-19 and the restrictive measures from European Governments, EFRAG extended the period of field testing until 31 August 2020 (**applications open until 31 July 2020**). We have been encouraging companies to participate in the field-tests on the IASB's ED and will allow flexibility in terms of communication and timing. Close coordination with the IASB is ensured. We are currently planning workshops to discuss with participants the outcome of their tests on 7 July and 24 August 2020 but, again, will allow flexibility in terms of communication and timing.
- 7 To collect input from the community of interested preparers that under the present circumstances are unable to participate in the field-tests, EFRAG is planning an online event on 1 September 2020.

EFRAG Outreach activities

- 8 EFRAG has launched several outreach events with various European stakeholders and in various jurisdictions. Until now, all outreach activities have been converted into public webinars and online events, with technical support of EFRAG Secretariat.
- 9 EFRAG organised and participated in the following outreach events:
 - (a) *Input on the IASBs Exposure Draft General Presentation and Disclosures:*
Online joint outreach event hosted by EFRAG, FSR – Danish Auditors, the Confederation of Danish Industry (DI) and the IASB (14 May 2020). For more details, please click [here](#).
 - (b) *Time for a facelift? A new look for the income statement (Presentation):*
Online users joint outreach event hosted by EFRAG, EFFAS, BVFA/ABAF and the IASB (19 May 2020). For more details, please click [here](#).
 - (c) *Time for a facelift? A new look for the income statement (Disclosures):*
Online users joint outreach event hosted by EFRAG, EFFAS, BVFA/ABAF and the IASB (26 May 2020). For more details, please click [here](#).
 - (d) *Changing the Income Statement – Norwegian perspectives:*
Online joint outreach event hosted by EFRAG, NASB, the NFF and the IASB (17 June 2020). For more details, please click [here](#).
- 10 The numbers of registrants to the events are provided in the following graph. We note that that the level of participation increased over time and gathered both local and global audience. The events are also available on demand on EFRAG’s broadcasting portal, on EFRAG’s web site, and on YouTube.

Level of registration to the webinars



- 11 EFRAG also notes that the total number of the audience that have watched the events using different social media channels is **close to 700** (some have been recently included in social media). It is worth noting that these webinars attracted mainly audience from the jurisdiction that hosted the event.
- 12 In addition to the webinars, the EFRAG Secretariat participated in closed discussions of working group meetings of different organisations such as the European Securities and Markets Authority (ESMA), The Corporate Reporting Users' Forum (CRUF), Accountancy Europe (AE), European Federation of Accountants and Auditors for SMEs (EFAAS), European Federation of Financial Analysts Societies (EFFAS), UK FRC and French Standard Setter (ANC).
- 13 Finally, the EFRAG Secretariat discussed this project with the EFRAG Insurance Accounting Working Group (IAWG), the EFRAG Financial Instruments Working Group (FIWG) and EFRAG User Panel.

Questions for EFRAG TEG-CFSS

- 14 Have National Standard Setters done or are planning to have outreach events on PFS?
- 15 Are National Standard Setters aware of other possible preparers willing to engage in the field test (to be known by 31 July)?
- 16 Do EFRAG TEG-CFSS members have questions, comments or suggestions about EFRAG Outreach Activities on Primary Financial Statements?

Key Messages from outreach events

- 17 In general, stakeholders have expressed support for the following key proposals (a more detailed summary of the feedback received can be found [here](#) at EFRAG TEG meeting – Primary Financial Statements):
 - (a) **The subtotal operating profit or loss:** Consistently with EFRAG comment letter, many welcomed the IASB efforts to improve the content and structure of the primary financial Statements, in particular stakeholders welcomed the new subtotal “Operating profit or loss” (good anchor point). Most users of financial statements welcomed the fact that associates and joint-ventures did not impact the operating profit subtotal. They also welcomed having more granular information on the face of the financial statements. Some stakeholders discussed the definition of operating profit or loss e.g. the definition as a default category, some called for the IASB to focus on the core profit of an entity.
 - (b) **Financing category:** When referring to the questions on the presentation of cash and cash equivalents and unwinding of discount, stakeholders provided mixed views. On cash and cash equivalents, some considered that it should be included in the investing category because an entity had invested in asset and excess cash was by management decision. Others considered that it should be presented in the financing category but considered that the IASB’s proposal would put tension on the definition of ‘cash and cash equivalents’ and suggested the IASB to focus on “financial assets that are managed for short term liquidity”. On the presentation of unwinding of discount, some considered that it should be included in operating category, particularly when related to operating liabilities, while others referred to the financing category as it reflected the cost to provide finance.
 - (c) **Disaggregation:** consistently with EFRAG DCL, many welcomed the IASB efforts to improve transparency and comparability.
 - (d) **Disclosures on MPMs:** Many considered management-defined performance measures useful. Consistently with EFRAG DCL, many users considered that the definition is too narrow (e.g. ratios or indicators of balance sheet should be included).
 - (e) **Improved comparability of the statement of cash flows:** Consistently with EFRAG DCL. many welcomed the IASB proposals to reduce optionality for the statement of cash flows and start the indirect method with operating profit as it would provide relevant information to users and improve comparability. However, many also considered that there is still room to improve IAS 7 and that this is something that the IASB should take into account in the next IASB agenda consultation.
- 18 The key debateable I issues/ issues with potential for improvement identified were:

- (a) **Labelling of the new categories:** having similar labelling of the categories in statements of cash flows and statement of financial performance was not considered useful. Some called for more consistency across the primary financial statements even if not requesting a full alignment. This is consistent with EFRAG DCL.
- (b) **Integral and non-integral associates and joint ventures:** many stakeholders questioned the relevance of the IASB proposal to require the split of integral and non-integral associates and joint-ventures (“is it worth to make the distinction?”); questioned the need for a separate subtotal on integral associates and joint-ventures (providing too much prominence to associates and joint-ventures) and questioned how the IASB proposals should be applied when considering immaterial associates and joint-ventures. Many also expressed concerns about the level of judgement involved. Some suggested having this information presented in the disclosures. Other proposed alternative ways of defining integral and non-integral. When referring to EFRAG question on whether there is a need for additional guidance, those who supported agreed that there was a need for additional guidance to decrease the level of judgement. Also when referring to whether it would be useful to separately present or disclose the income tax related to associates and joint-ventures accounted for under the equity method, many said that there is room to improve the equity method but agreed that this should be addressed in a different project.
- (c) **Analysis of operating expenses by nature or by function:** when referring to EFRAG question in the ED, stakeholders expressed different preferences. Some preferred analysis of expenses by nature (mainly users), a few considered that a mixed approach provided more flexibility to management to explain the entity’s performance and others preferred a by function presentation together with disclosures by nature, including in the interim financial statements.
- (d) **EBITDA:** Consistently with EFRAG DCL, many users of financial statements highlighted the importance of the subtotal EBITDA, which is widely used by analysts for valuation purposes, by non-financial institutions and by databases. Consistently with EFRAG DCL, they expressed regret that the IASB had not defined it but some considered that the subtotal “operating profit or loss before depreciation and amortisation” was already a step forward.
- (e) **Scope of MPMs:** EFRAG is seeking views of constituents on how to define an alternative narrower scope of presentation of MPM reconciliations in the financial statements (e.g. required only for the indicators that the entity presents in the financial statements or required for the indicators presented in all the communications issued jointly with the annual or interim results).
- (f) Stakeholders expressed mixed views:
 - (i) Many considered appropriate to go for the latter approach, particularly users of financial statements. They also considered important that such measures would be audited;
 - (ii) Some stakeholders would prefer the first (narrower) approach, particularly preparers;
 - (iii) Many expressed concerns that the use of MPMs may add uncertainty and confusion as the annual report would end up including many types of performance measures (e.g. IFRS performance measures, management performance measures, alternative performance measures, unusual items, etc) which would be located in different parts of the annual report.

- (g) In addition, many called for the IASB to clarify the meaning of ‘public communication’ and referred to the differences in terms of the scope between MPMs and APMS and. Finally, reconciliations may duplicate and not be fully aligned with ESMA Guidelines.
- (h) **Unusual income and expenses:** stakeholders provided mix views on how unusual items should be defined, with some saying that the IASB definition is too narrow, others saying it is too wide, some saying that there should be a list of line items for which entities have to provide disclosures (e.g. restructurings) and others considering that it was difficult to agree on a common definition and management should provide its own definition of unusual items (particularly when considering that this would not impact the presentation of the income statement). Nonetheless, many questioned the applicability (“is it feasible to assess whether something will occur in the future, particularly when considering fluctuation of amounts”) and usefulness of the IASB proposals, particularly when considering the IASB proposals on MPMs that were likely to capture the same items.
- 19 For each webinar, EFRAG is going to publish a summary report which will be published on EFRAG Website. As mentioned above, detailed summary of the feedback received can be found [here](#) (EFRAG TEG meeting – Primary Financial Statements).

Questions for EFRAG TEG-CFSS

- 20 Have National Standard Setters received similar feedback?

Separate Financial Statements

- 21 For those applying IFRS to separate financial statements, there have been practical concerns about the relevance of some of the requirements under IFRS because the focus of IFRS is, generally, on the preparation of consolidated financial statements and, hence, IFRS are sometimes silent or unclear on how to deal with some accounting issues in separate financial statements.
- 22 At this stage, the IASB did not suggest any specific guidance in IAS 27 *Separate Financial Statements* in the Exposure Draft *General Presentation and Disclosures* (ED).
- 23 In regard to the IASB proposals on integral and non-integral associates and joint ventures, in its DCL EFRAG highlighted that the IASB’s proposals would also apply to separate financial statements. Therefore, for subsidiaries in the separate financial statements this will raise the question of whether the classification of its investments as integral and non-integral will apply.
- 24 The IASB’s proposals would apply to associates and joint ventures in the separate financial statements, which may in some cases raise questions about the applicability of the proposed definitions. For example, if an entity elects to account for its investments in associates and joint ventures at cost in its separate financial statements, this will raise the question of whether the classification of its investments as integral or non-integral will apply.
- 25 EFRAG also highlighted the challenges of applying the concept of ‘entity’s main business activity’ to entities with multiple business activities, that include investing and financing activities, particularly when considering the perspectives of the legal entity (parent or a subsidiary) in the separate financial statements and of the group.
- 26 Finally, questions have also been raised whether there should be symmetry in the accounting for transactions or events in the separate and consolidated financial statements (e.g. allocation of line items to the categories and classification of integral and non-integral associates and joint-ventures).

- 27 EFRAG considers that there is a need for the IASB to further discuss how its proposals in general would apply to the separate financial statements, including the challenges that may arise in practice to those who prepare and use separate financial statements.

Questions for EFRAG TEG-CFSS

- 28 Do EFRAG TEG-CFSS members share the concerns on how the IASB proposals on Primary Financial Statements would apply to the separate financial statements?
- 29 Should there any other specific point be raised to the IASB?