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Primary Financial Statements Cover Note

Objective and agenda papers

- 1 The objective of the session is to have EFRAG CFSS-TEG members' views as preparation for the forthcoming ASAF meeting on:
 - (a) the structure of the forthcoming IASB Exposure Draft on *Primary Financial Statements*; and
 - (b) topics of interest for future outreach events and possible opportunities to discuss this project.
- 2 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 08-02 - AP4 ASAF Structuring Standard(s) and Outreach Plan – for background only;
 - (b) Agenda paper 08-03 - AP4A ASAF Summary of tentative decisions – for background only; and
 - (c) Agenda paper 08-04 - IASB presentation to CMAC and GPF June 2019 – for background only. This paper provides a simplified summary of the IASB's tentative decisions.

Background

- 3 In its *Primary Financial Statements* project, the IASB is considering possible changes to the structure and content of the primary financial statements, particularly the statement of financial performance. This project is a part of the IASB's response to investors' demand for the IASB to undertake a project on performance reporting and is a part of the IASB's *Better Communication in Financial Reporting* initiative.
- 4 The EFRAG Secretariat has provided updates to EFRAG TEG-CFSS members on several occasions. In November 2018, EFRAG TEG-CFSS members received an overview of the IASB's tentative decisions and discussed the following topics:
 - (a) Presenting subtotals in the statement of profit or loss;
 - (b) Disclosures of management performance measures; and
 - (c) Improving disaggregation.
- 5 Subsequently, the IASB made the following tentative decisions:
 - (a) **statement of financial performance:** to refine the scope of subtotals for entities that provide financing to customers as a main business activity and entities that make investments in the course of their main business activities (IASB meeting in February and April 2019);

Primary Financial Statements

- (b) **statement of cash flows:** to refine the classification of dividends/interest paid and received for entities that provide financing to customers as a main business activity and entities that make investments in the course of their main business activities (IASB meeting February 2019);
 - (c) **aggregation and disaggregation:** to develop additional proposals, including requiring new minimum line items, defining unusual items and requiring new disclosures on unusual items (IASB meeting February and March 2019);
 - (d) **management performance measures:** to further clarify its previous tentative decisions (IASB meeting April 2019).
- 6 In May 2019, the IASB decided to publish an Exposure Draft by the end of the year seeking feedback on proposals in the *Primary Financial Statements* project.

Structuring the new requirements

- 7 The IASB is currently considering how it can best structure the new requirements and has identified three possible approaches:
- (a) **Approach 1:** withdraw IAS 1 *Presentation of Financial Statements* and replace it with a new Standard (although not all the requirements in IAS 1 would be affected by the IASB's proposals);
 - (b) **Approach 2:** amend IAS 1 to remove requirements related to the structure and content of primary financial statements and disaggregation (which are likely to be significantly affected by the IASB's proposals) and include them in a new IFRS Standard; and
 - (c) **Approach 3:** amend IAS 1 without developing a new Standard (adding or deleting some paragraphs but the basic structure of IAS 1 would be retained)
- 8 Paragraphs 10 to 15 of agenda paper 08-02 refers to the pros and cons of each approach. For example, it refers to:
- (a) the possibility of restructuring and improving in general the drafting of IAS 1 if it is replaced by a single IFRS Standard;
 - (b) the difficulties of identifying which parts of IAS 1 would change and timing considerations if IAS 1 is replaced by a single IFRS Standard; and
 - (c) the challenges of splitting IAS 1 into two standards.
- 9 The IASB Staff did not have a preferred approach but did not support approach 3 as the IASB proposals would substantially change the requirements in IAS 1 and its Basis for Conclusions.

EFRAG Secretariat analysis

- 10 After considering the provided pros and cons of the different approaches, the EFRAG Secretariat prefers Approach 1 i.e. the development of a new IFRS Standard. The EFRAG Secretariat considers that this approach would have the benefit of:
- (a) giving more prominence to the IASB proposals on this project;
 - (b) maintaining all the existing requirements included in IAS 1 in a single standard and providing a better overview of the improvements to presentation of financial statements;
 - (c) giving the IASB the possibility of restructuring and improving in general the current drafting of IAS 1, including taxonomy considerations; and
 - (d) giving the IASB the possibility of integrating the existing interpretations on IAS 1, clarifications from IFRS IC and the requirements in IAS 7 *Statement of Cash Flows* into the new IFRS Standard.

- 11 If the IASB decides to undertake this approach, then the EFRAG Secretariat considers that the ED should encompass a complete review of IAS 1 with the proposed changes well identified. The EFRAG Secretariat also considers that the IASB should liaise with the team members of other projects related to IAS 1 (e.g. “classification of liabilities as current and non-current”) with the objective of having a single comprehensive review of IAS 1 resulting in a new IFRS Standard.
- 12 The EFRAG Secretariat acknowledges the benefits highlighted by the IASB Staff of moving parts of IAS 1 to a new Standard (Approach 2). However, EFRAG Secretariat considers that such an approach would risk raising a wide debate on what should be included in the new Standard and what should be retained in IAS 1.
- 13 In addition, such a split may be difficult due to interactions between the different sections of IAS 1. For example, according to the IASB Staff suggestion included in Table B1 of agenda paper 08-02, both the new Standard and an amended IAS 1 would include sections on the objective, scope and definitions even if both focused on the basis for presentation of financial statements.

Questions for EFRAG TEG-CFSS

- 14 What are the EFRAG TEG-CFSS members’ views on the approaches described in paragraph 7? Has the IASB correctly identified advantages and disadvantages of Approaches 1 and 2 in paragraphs 12 to 15 of agenda paper 08-02?
- 15 Are there any alternative approaches that the IASB should consider?

Outreach plan

- 16 To help the IASB preparing future outreach activities, the IASB Staff is asking advice on topics of interest for future outreach events and possible opportunities to discuss this project.

EFRAG Secretariat analysis

- 17 As in other major reviews of IFRS Standards, the EFRAG Secretariat plans to undertake an extensive outreach program, to collect European constituents’ views.
- 18 Nonetheless, considering that the IASB is proposing a significant change to content and structure of financial statements, the EFRAG Secretariat considers that field-tests with preparers during the IASB consultation period would be beneficial.

Questions for EFRAG TEG-CFSS

- 19 What are the EFRAG TEG-CFSS members’ views on:
 - (a) project topics, if any, that are likely to be of particular interest to stakeholders in your jurisdiction; and
 - (b) any events that could be used as an opportunity to discuss the project with stakeholders in your jurisdiction?