

# PRIMARY FINANCIAL STATEMENTS SUMMARY REPORT

Preparers Roundtable 1 September 2020



## Introduction

In order to receive input from preparers and to stimulate the discussion around the IASB® Exposure Draft on *General Presentation and Disclosures* ('the ED'), BusinessEurope, EFRAG and the IASB arranged a joint outreach online event on 1 September 2020. This report has been prepared for the convenience of European constituents to summarise the event and will be further considered by the involved organisations in the respective due process on the IASB proposal.

The program of the event and the speaker's bio's can be consulted [here](#).

**Claes Norberg**, EFRAG Board member and Chair of BusinessEurope Sounding Board, welcomed participants, introduced the speakers and provided an overview of the agenda.

**Nick Anderson**, IASB Board member, and **Aida Vatrenjak**, IASB Technical staff, explained the purpose of the project and the IASB's proposals included in the ED in response to the requests.

**Kathrin Schoene**, EFRAG Project Director, presented EFRAG's outreach activities and field-test workshops with preparers of financial statements that took place on 7 July and on 24 August. The objective of the preparers' roundtable is to collect input from the community of interested preparers that were unable to participate in the field-tests due to the pandemic situation.

The event focused on 4 topical issues and for each of them the IASB representatives introduced the proposals, the EFRAG representatives presented EFRAG preliminary position and the panellists **Susanne Bek**, from SAP; **Andre Besson**, from Nestlé; **Eva Kalk**, from Siemens; **Ezio Santroni**, from ENI; and **Ewa Wanda Maruszewska**, from Welding Alloys Polska participated in the discussion and provided their views. The panellists shared their insights of the field test with the audience. **Christoph Schauerte** from Vonovia and EFRAG TEG member managed questions and responses from the audience.

The audience provided their views on the proposals as illustrated below through polling surveys and asked questions to the speakers (below reported as "SLIDO Q&A").

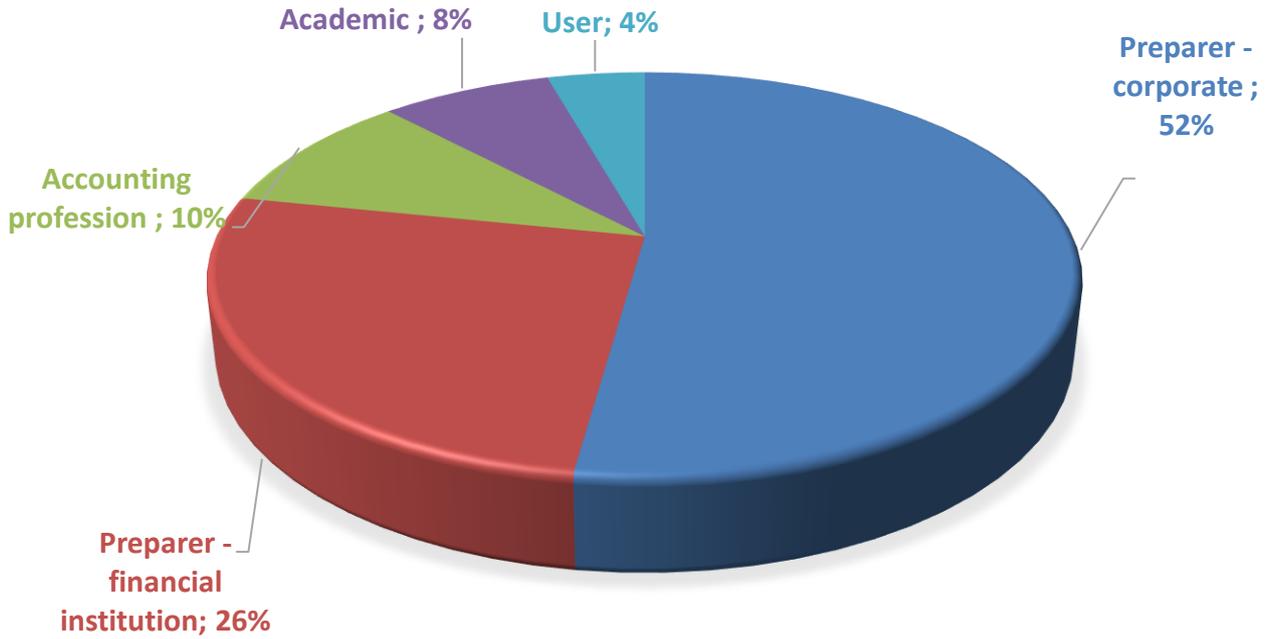
### *IASB introduction to its Exposure Draft General Presentation and Disclosures*

**Nick Anderson**, IASB Board member, introduced the IASB project *Primary Financial Statements* ('PFS'). In particular, Nick Anderson explained that the proposals were in response to long-standing requests from investors. The proposals fell into three areas: improving the structure and content of the statement of financial performance; ensuring that investors receive sufficiently granular information from the financial statements; and ensuring key non-GAAP measures of performance were disclosed in both a transparent and disciplined way.

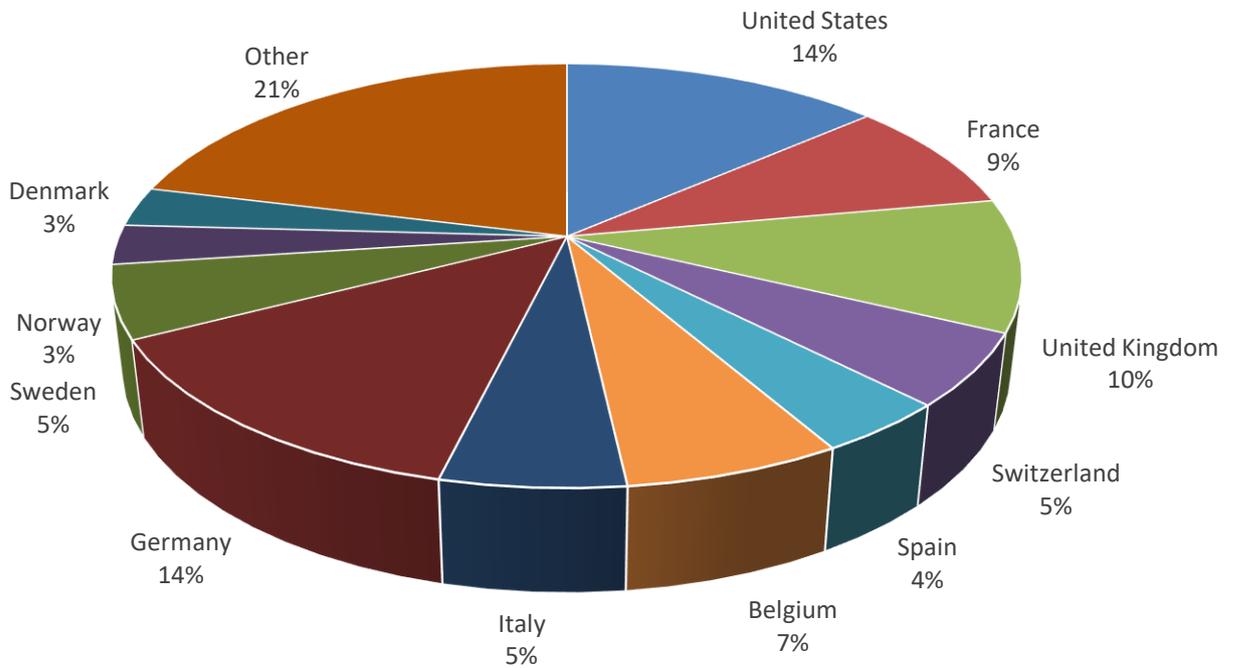
**Aida Vatrenjak**, IASB Technical staff, outlined the purpose of the fieldwork, which was to provide the IASB with evidence of how the proposals would be implemented in practice; any need for further guidance and the extent of process or system changes that may be needed. The focus was on practical application challenges. The consultation period ended on 30 September. The proposals would result in a new standard that would replace IAS 1 *Presentation of Financial Statements*.

The profile of participants is summarised below.

## PROFILE OF PARTICIPANTS



## Participants by geographical area



The recording of the event can be consulted [here](#). During the roundtable, attendees' views were collected through on-line questions. The results are shown below (SLIDO Q&A).

## Discussion

### Topic 1: Classification of income and expenses

**Nick Anderson** presented the IASB proposals to introduce a more comparable structure in the statement of profit or loss statement that would define subtotals as well as categories in between those subtotals. He provided a general corporate example as well as an investment and retail bank example.

**Kathrin Schoene** presented the feedback from outreach activities on the classification of income and expenses and the areas where there was the need for clearer guidance, as outlined in the accompanying slides.

**Susanne Bek**, Finance expert in corporate financial reporting from SAP, noted that the proposed requirements were generally clear. She highlighted the practical challenge of classifying gains and losses from foreign exchange differences that were currently presented in one line item below operating profit. The field test demonstrated that it was not easy to allocate these foreign exchange gains and losses to the operating, investing and financing categories because the existing accounts for foreign exchange gains and losses are mixed. On the materiality issue, in the field test exercise SAP decided to present all the line items as per the ED, also for a couple of non-material line items, such as the share of profit or loss of non-integral associates and joint ventures or interest revenue from cash and cash equivalents. SAP would welcome guidance on this area.

**Ewa Wanda Maruszewska** (Welding Alloys Polska), commented that the proposals on classification of income and expenses seemed clear as investing activity was in her experience clearly separated from operating activity. She was bringing the perspective of a smaller entity that has to report both on local GAAP and IFRS Standards. The new proposals in the ED for them would result in additional activities to reconcile the presentation under local GAAP and that under IFRS Standards. It was useful that the financing category clearly included income and expenses from cash and cash equivalents as well as expenses and income from financing activities. On the other hand, there were no detailed explanations relating to classification of leases and the illustrated examples were not sufficient.

Furthermore, **Ewa Wanda Maruszewska** commented that there was no need to define EBIT and EBITDA because profit before financing and income tax was very close to EBIT. The new subtotal of operating profit or loss would enhance comparability and was already used as described in the ED by Welding Alloys Polska. Most of foreign exchange gains and losses were considered in the operating category for both statement of profit or loss and the statement of cash flows to provide a clear and consistent approach. However, due to the lack of cohesiveness in the proposals of the ED, the two statements would require a lot of resources to provide detailed and relevant information. Additionally, at transition it was not clear whether the retrospective approach should be used to present expenses classified within the three categories.

**Ezio Santroni**, ENI Accounting principles and regulations competence center, noted that the most challenging area regarded the classification of income and expenses was the categorization of foreign exchange differences. The cost of tracing foreign exchange differences could be higher than the benefits expected from their classification. He suggested that it would be useful if the IASB provided for an explicit option that allowed entities to classify all foreign exchange differences in a single item in the statement of profit or loss. Furthermore, he noted that classification mismatches would arise on the face of the statement of profit or loss, as the risk management approach is to aggregate exposures to the

same currency coming from different items (e.g. operating and financing) and use the same derivative to mitigate the risk. He also suggested that it would be useful if the IASB provided additional guidance on when gains and losses on non-hedging derivatives could be considered operating income and expenses.

**Question 2: Are the IASB's proposals for classifying income and expenses (operating, investing and financing) clear and easy to implement?**

0 4 6

Yes, the IASB's proposals are clear and easy to implement.

4 %

Yes, the IASB's proposals are clear but more guidance is needed (e.g. meaning of main business activity) to facilitate implementation.

61 %

No, the IASB's proposals are not clear and not easy to implement. More guidance is needed to facilitate implementation.

22 %

I do not agree with the IASB's proposals, regardless of whether they are clear and easy to implement.

13 %

**SLIDO Q&A:** *Why depreciation related to investing activities would be presented within operating category?*

**Aida Vatrenjak** replied that investors had given a clear and consistent message that when they analyzed the statement of profit or loss, depreciation belonged to operating result and users did not want alignment in this case.

**SLIDO Q&A:** *The operating category was defined as a residual category, but some users were pushing for a direct definition as well. How would this work?*

**Aida Vatrenjak** responded that the feedback had been that the approach proposed was quite reasonable because it reduced the costs of application and helped users with consistency. There had been some calls for a more conceptual approach, but the general feeling was that it was a pragmatic approach; it was less controversial than what they anticipated.

**SLIDO Q&A:** *Why does operating profit not align with operating segment per IFRS 8?*

**Nick Anderson** answered that the purpose of the project was to ensure that there was an operating profit metric in the statement of financial performance that was comparable from one entity to another. The metric in IFRS 8 segment reporting was determined by entities and therefore did not meet the objective of comparability.

**SLIDO Q&A:** *The ED presented interest capitalised as part of the cost of an asset in financing. Why financing rather than investing?*

**Aida Vatrenjak** responded that there had not been a comprehensive review of classification in the statement of cash flows as part of the project. The overriding objective was for all of interest to be in one place, as requested by users. The overwhelming view was that for general corporates, interest was in the financing category.

## Topic 2: Integral or non-integral associates and joint ventures

**Nick Anderson** noted that the IASB developed this proposal to respond to the request from investors to exclude the share of profit or loss of associates and joint ventures from operating profit. However, preparers wanted to include some associates and joint ventures in operating profit, such as when they operate part of their main business through an associate or joint venture as in some developing countries foreign entities cannot have control over a subsidiary. The IASB was seeking to solve both the users' desire to have a clean operating profit and the companies' desire to reflect that some of their associates and joint ventures were closely related to their operating activities.

**Filipe Alves** reported that in the field test this was one of the most debated proposals in the ED. The split was new, however, for managerial purposes some entities already had a similar approach. Participants also noted that the classification of the investments was becoming more complex. There were mixed views whether more guidance was needed or not. For some the definition was too narrow. Finally, how to apply the requirements to the separate financial statements was unclear.

**Ezio Santroni** supported the effort of the IASB however would welcome more illustrative examples and guidance in order to avoid ambiguity and reduce the level of judgement that entities should apply in order to make a distinction between integral and non-integral associates and joint ventures. It would be also useful to clarify if a significant interdependence between the investor and the investee should be considered only from the investor's perspective or from both the perspectives (investor and investee). In addition, it would be useful to explain better the meaning of 'integrated lines of business' and to have more indicators to help in the assessment. He mentioned as possible indicators:

- the existence of significant financing transactions between the investor and the investee;
- the classification as 'strategic' investment through the eyes of management, rather than as an asset that generated returns largely independently;
- the use in public communications of an MPM based on operating profit including the results of joint ventures or associates.

Finally, he pointed out the need to clarify the interaction of this new classification requirements with other standards:

- regarding the interaction with IAS 28, sometime entities granted financing to associates and joint ventures that may be classified as long-term interest in accordance with IAS 28 in case of integral joint ventures or associates, should gains or losses (eg. the interest income) on such a loan be considered income/loss from investing activity or should they be seen as a component of the whole performance of the investee and, thus, to be classified within the integral joint ventures or associates category?;
- regarding the interaction with IFRS 5, he asked for clarification on whether the classification as held for sale of an integral associate or joint venture would imply the classification of any fair value measurements within the integral joint ventures or associates category or within the investment category of P&L account.

**Eva Kalk**, Manager Financial Instruments & Liabilities Accounting Policies, Siemens noted that the distinction between integral and non-integral required significant judgement, which may lead to inconsistent interpretation in practice. For Siemens, high implementation costs were expected as many associates and joint ventures had to be considered and classified, which was time consuming.

Regarding the proposal that sharing a brand would be a strong indicator for an integral business, from Siemens's perspective this did not necessarily mean the business was integral to their activities. It happens that the development of a new technology is done by an associate or joint venture that is sold

with the same brand, however, there was no business relationship any more. Shared brands with no business relationship should not be shown in operating profit. In addition, Siemens usually invested in companies that were related to Siemens business but without being operationally integrated, such as investing in an entity that was developing interesting technologies for the future. She would consider that these investments were part of the main business activity.

Finally, differently from the previous speaker, in general she would not like to have more indicators or examples, as a principles-based approach was more helpful.

**Andre Besson**, Head of Financial Reporting Guidelines, Nestlé supported the call for clear principles. Some further clarification was needed. He mentioned paragraph 48 of the ED. This paragraph stated that certain items should not be included in the investing category if they were generated in the main course of business. Strategic investments especially long-term were always done for a business purpose and, therefore, they would always be “integral” despite not being operationally integrated. He mentioned the need to see how the classification would work along the cycle of investment. For example, after a disinvestment Nestlé could still have shared brands and an equity interest, but it was not seen automatically as integral. Furthermore, there may be a time-limited license granted by the investor or the investee. In this case, some associates and joint ventures may move from being non-integral to being integral only based on the shared brand, which may not necessarily represent management’s intent.

**Question 4: Do you consider that the IASB proposals on splitting integral and non-integral associates and joint ventures can be easily and consistently implemented by your company?**  
(1/2)

0 4 6

Yes, the proposals are easy to implement, the split does not require significant judgement and they can be applied consistently.

9 %

Yes, the split does not require significant judgement, but would welcome more guidance to facilitate implementation and help consistent application.

13 %

No, the split will always require significant judgement and may lead to diversity in practice.

70 %

Not an issue as my company's associates and joint ventures are not material.

9 %

**Aida Vatrenjak** observed that only some equity investments and joint ventures were seen as “integral”, while the view that was emerging today was that all investment had some value to the business.

**Andre Besson** responded that Nestlé had an associate which was clearly considered to be non-integral because it was run separately as a listed company. For this associate it was possible to apply the guidance easily. There were other associates that were more strategic investments because Nestlé might be interested in their technology in the future and for which more guidance would be useful. There was no operational link apart from representation on a board. Other associates were much more

operational, some on an exit strategy and others on an entry strategy; it was in this area that the judgement was difficult. He considered whether it would be useful to group all associates and joint ventures and certain types of financial investments in the investing category and abandon the split between integral and non-integral.

**Susanne Bek** commented that in SAP all associates and joint ventures were considered as non-integral and therefore they did not have the same issues as other companies.

**SLIDO Q&A:** Why the split of associates and joint ventures into integral and non-integral was not applied to subsidiaries too?

**Nick Anderson** explained that the proposal was designed to help preparers who had relayed that some of their associates and joint ventures were important to their operating activities. He emphasised that the definition of operating profit included no contribution from equity accounted associates and joint ventures; it was simply about differentiating between integral and non-integral.

**SLIDO Q&A:** *When classifying investments as integral or non-integral, should the underlying risks be considered more than the relevant transaction with the investee?*

**Nick Anderson** responded that there had been a discussion of risk but that had not made it into the final set of proposals.

**SLIDO Q&A:** *How to present the subtotal operating profit or loss and income and expenses from integral associates and joint ventures when those integral associates and joint ventures are insignificant? Is it necessary to show the subtotal?*

**Andre Besson** commented that if they were insignificant then he would consider presenting the joint ventures as a single line in the statement of profit or loss and presenting the details in a note. Considering materiality, he would not want to clutter the face of the income statement with immaterial information.

**Aida Vatrenjak** responded that if an item was not material then it was not required to have a separate line item neither was it required to have the subtotal. Given the number of questions on this issue, it was clear that more clarity was needed in the final standard.

**SLIDO Q&A:** *If an entity considered associates and joint ventures to be integral and important, could they be addressed only through an MPM?*

**Aida Vatrenjak** replied that the IASB considered important to grant comparability while an MPM would leave the option to the management to choose the information to be presented.

### **Topic 3: Analysis of expenses by function and by nature**

**Aida Vatrenjak** introduced the proposals, which comprised clarifications that companies should not mix the two methods of presenting analysis of operating expenses on the face of the financial statements. The concept of presentation by function or by nature was not new, so this proposal is not meant to introduce a change and is seen more as an enhancement of the current approach. However, the proposal of the IASB and in particular the prohibition to have a mixed approach (excluding the need for specific minimum line items) was resulting in a lively debate. The requirement to have in all cases the presentation by nature in the notes was requested as users consider this information more predictive.

**Filipe Alves** outlined that there were no significant changes or concerns from entities presenting operating expenses by nature. The observations came mainly from entities that presented an analysis of their operating expenses by function or used a mixed approach. In addition, more guidance was considered appropriate by participants for some specific items, such as restructuring expenses or goodwill impairment.

**Susanne Bek** requested that the IASB clarified the link between paragraphs B46 and B15 of the ED. SAP currently presented in the statement of profit or loss an analyses of expense by function but showed restructuring expenses as a separate line item and provided information by functional areas in

the notes. She also noted that it was currently not possible to classify foreign exchange gains and losses by functional area.

**Andre Besson** opined that restructuring costs should be presented separately: the costs that had an exit purpose should be presented differently to those that were linked to the running of the distribution or manufacturing functions. The decision to restructure an organisation was made at a much higher level than the day-to-day operating activities. He also considered that if 'other' expenses were not presented on the face of the statement of profit or loss, then they would be included in administrative expenses which would become 'other' by default. Paragraph 70 of the ED should be further enhanced by making a principle-based distinction between the nature of expense (what expense had been incurred) and the function of expense (why had it been incurred). The mixed presentation prohibition was also confusing in relation to gains and losses on disposal of businesses and on material goodwill impairment. More complex examples would aid easier application and allow regulators, auditors and preparers to take a more flexible view and to focus on the information content.

**Eva Kalk** agreed that choosing one presentation method for operating expenses in the financial statements and then doing a complete analysis in the notes based on a different approach would lead to confusion. The IASB should take into consideration the perspective of a globally operating company that had a few hundred subsidiaries. A worldwide IT project was needed to implement the system changes that would take more than a year to complete. Additionally, consolidation software needed to be adapted for the elimination of the intercompany transactions. The recommendation was to continue with the principle of two methods with the possibility of management to choose between the two methods, depending on the specifics of each entity and the usefulness of information provided to users. Investors were not interested in consolidated group numbers to forecast cash flows. It was difficult to see the benefits of such a disclosure, particularly when compared to the costs of changing IT systems.

**Ewa Wanda Maruszewska** noted that Welding Alloys Polska already presented operating expenses by nature and by function and welcomed the proposals. Costs by nature were better for forecasting future cash flows from her experience. A matrix presentation would be very informative for readers as well as for internal purposes; however, it would be very costly. She suggested that it would be useful to disclose expenses by function in the notes when the statement of profit or loss was classifying them by nature.

**Question 5: What system changes would be required for your company to provide disclosures by nature when presenting by function?**

0 3 9

**Nick Anderson** noted that the call for 'by nature' information came from investors and analysts, particularly in Europe. 'By nature' presentation helped them to more intuitively focus on cash flows. Equity investors wanted to forecast cash flows at the group level. The IASB had decided that a matrix level presentation would be prohibitively expensive. The IASB did not hear of a demand from users to see numbers presented by function from those companies that presented by nature.

All the information is available and no significant changes to the systems are needed.

 15 %

The information is available but it would require a significant change to the systems to be able to disclose the total operating expenses by nature.

 28 %

The information is not available and it would require a significant change to the systems to be able to disclose the total operating expenses by nature.

 21 %

It does not affect my company as it presents operating expenses by nature in its financial statements.

 36 %

**SLIDO Q&A:** Please clarify if during implementation of the new standard the retrospective method would be requested?

**Aida Vatrenjak** responded in the affirmative. The proposals did not affect recognition and measurement of assets, liabilities, income and expenses; it was all about presentation and disclosure.

#### **Topic 4: Management performance measures disclosures and unusual items**

**Aida Vatrenjak** explained the proposals as outlined in the accompanying slides. Non-GAAP measures were widely used but not easy to find in the public communication, not consistently defined. There was a shortage of data quality. The IASB had identified a subset of these indicators and acted to enhance discipline. The requirement to provide specific disclosure and reconciliation was not new but was similar to other regulators' approaches, additionally, the IASB was also requesting to split tax and NCI components in the reconciliation.

**Filipe Alves** summarised the feedback EFRAG had received in its outreach activities on the management performance measures and unusual items proposals. Participants wanted more clarity on the meaning of public communication as this term seemed to be too broad; they felt that the scope of the definition of MPM was too narrow; they would prefer to present together MPMs and other non-GAAP measures. They finally questioned the interaction with other requirements (e.g. ESMA guidelines). On the proposal regarding unusual income and expenses, they considered the scope of the definition too narrow and observed a high level of judgement in identifying these items.

**Ewa Wanda Maruszewska** reported that the definition of management performance measures was clear and that the requirement to disclose in a single note was welcomed. Welding Alloys Polska had decided to provide a full list of MPMs to faithfully represent different aspects of financial performance as well as two non-financial measures.

Regarding unusual items, it was important that such unusual items were allowed to be presented in all line items of statement of profit or loss. However, the proposal did not specify whether restructuring or scaling down the business should be an unusual item as well as impairment charges in the Covid-19 situation. The unusual items requirements were welcomed but they presented a big challenge when comparing the local accounting regulation with proposed changes in IFRS Standards.

**Susanne Bek** noted that SAP used many non-IFRS measures. There was already a disclosure in the management report. Three measures had been identified of MPMs during the fieldwork: non-IFRS operating profit; non-IFRS profit after tax; and non-IFRS profit at 'constant' currency for which the tax effect was approximated but it was not possible to calculate the NCI effect. She recommended adding the use of 'constant' currency figures to the exemptions defined in paragraph 104 of the ED because this was a different level compared to other adjustments.

Regarding unusual items, **Andre Besson** was concerned that with the current definition they would still end up with an entity-specific application. For an international company, global events for example earthquakes and hurricanes happened somewhere in the world every year, therefore, they would not be considered as unusual items at the group level, even if they would be considered as unusual items at the subsidiary level. The definition of unusual items for large geographically diversified groups may become very small while, for a small company, the definition of unusual items may be more broadly applied, thus hindering consistency.

**Question 6: Is the IASB definition of management performance measures (MPMs) easy to implement and capturing the right items?**

0 4 5

Yes, it is easy to implement and captures the right items.

16 %

Yes, it is easy to implement however the scope should be widened.

18 %

No, management should only be required to provide disclosures on MPMs when it uses them in the financial statements as entities already have to comply with ESMA's Guidelines on APMs.

47 %

No, management-defined performance measures should not be included in the financial statements together with IFRS defined measures.

20 %

**Question 7: Is the IASB definition on unusual items easy to implement and capturing the right items?**

0 4 4

Yes, it is easy to implement and captures the right items.

0 %

Yes, it is easy to implement however the scope should be widened to reflect unusual items that occur for a limited period of time.

23 %

Yes, it is easy to implement however the scope should be narrow to avoid abuse.

5 %

No, more guidance is needed.

64 %

No, what is unusual should be a management decision.

9 %

**SLIDO Q&A:** *Regarding the scope of MPMs and unusual items, should all items in use be disclosed and could they be combined with other non-financial information? Why a combination of balance sheet and income statement measures was not included in the scope of MPMs?*

**Aida Vatrenjak** responded that everything that met the definition of unusual income and expense and MPMS should be disclosed. There did not seem to be an excessive number of measures being identified because of the proposals.

**Nick Anderson** acknowledged that scope of the MPM proposal was a contentious issue. On unusual items, there was a great deal of enthusiasm from users to have the information in a single note.

**SLIDO Q&A:** *Can unusual items be presented on the face of the income statement? Should they be in one single note?*

**Andre Besson** responded that Nestlé had taken the decision to publish a separate document for APMs with cross-references in other documents.

**SLIDO Q&A:** *Why not leave MPMs and unusual items out of the financial statements?*

**Nick Anderson** responded that there was a strong desire from investors to have more information about key non-GAAP measures that related to financial information and to be able to find it easily in a single location and for it to be subject to audit in all markets.

**SLIDO Q&A:** *Was there a risk that users would require additional information regarding unusual items or for items not covered by the definition?*

**Ezio Santroni** agreed that preparers may face the risk of requests for additional information. The IASB should closely communicate with regulators to avoid overregulation on this topic.

**SLIDO Q&A:** *Why unusual items should not be presented separately on the face of the statement of profit or loss?*

**Aida Vatrenjak** responded the focus of classification and presentation had been on completeness and comparability. It would not be possible to have the completeness of analysis of expenses without integrating unusual items with the other expenses of the period. Unusual items in the note had to be

attributed to line items in the statement of profit or loss so that investors could draw information from the subtotal.

**SLIDO Q&A:** *Why the requirements did not consider a cross-reference from the management commentary to the APMs?*

**Nick Anderson** responded that cross-referencing was not part of the proposals and had not been discussed by the Board. If cross-referencing were to be considered, then the Board would still seek for those measures to be subject to audit.

## Closing remarks and main takeaways

**Nick Anderson** thanked the participants for their contributions. It was a very important project for IASB that sought to address some long-standing concerns of users in relation to comparability, better disaggregation and more transparency around non-GAAP measures. However, it was important to understand the practicalities of implementing the proposals in order to weigh up the costs and benefits of doing so.

**Chiara Del Prete** summarised that the discussion had confirmed that the IASB's proposals went in the right direction but that there were challenges with implementation, particularly in achieving the right trade-off between comparability and entity-specific information. The exchange of views confirmed how important and valuable it was to engage with preparers on these issues. The main takeaways from the discussion were as follows:

- The proposal regarding foreign exchange components was a particularly difficult proposal to implement for preparers and may result in some additional IT costs.
- There were suggestions to enhance the practicability and definitions of the new approach, including clarifying the definition of strategic investments and be more principle based on integral and non-integral classification.
- Insight had been provided on how the implementation might differ between small entities that had to deal with reconciliation with local GAAP and big geographically diversified entities that had to reconcile subsidiary level with group level.
- There was the issue of how the proposals on integral and non-integral associates and joint ventures would interact with IFRS 5 and IAS 28.
- To consider how the definitions related to the different phases of an investment and divestment cycle regarding the investing category and integral associates and joint ventures in the operating category.
- Half of the participating preparers in the roundtable needed to engage in IT transformation in order to meet the requirements of by nature/ by function presentation of their operating expenses.

**Claes Norberg** thanked all the participants for their contributions and closed the webinar.