

PRIMARY FINANCIAL STATEMENTS

EFRAG BOARD

4 APRIL 2022



European Financial Reporting Advisory Group



DISCLAIMER

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OVERVIEW

UPDATE ON THE PROJECT





UPDATE ON THE PROJECT

BACKGROUND

KEY MILESTONES ON THIS PROJECT

- In December 2019, the IASB published the ED *General Presentation and Disclosures* where it includes proposals to improve how information is communicated in the financial statements, with a focus on the statement of profit or loss
- EFRAG published its Draft Comment Letter in February 2020 and was open for comments until September 2020
- After the publication of its DCL, EFRAG realised a programme of outreach events and stakeholder meetings in partnership with other organisations, including with the IASB
- In 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
- To collect input from the community of interested preparers that were unable to participate in the field-tests, EFRAG organised an online event on 1 September 2020 focused on preparers
- In November 2020, EFRAG issued its Final Comment Letter
- More details on [EFRAG Website](#)

PROJECT STATUS AND REDELIBERATIONS TO DATE

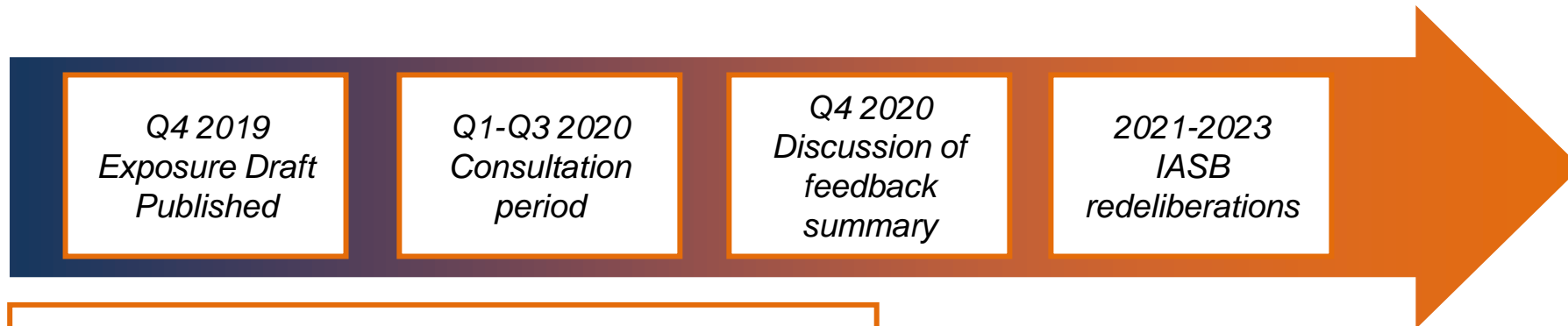
OBJECTIVE OF THE ED

- Improve communication in financial statements
- Focus on information included in the statement of profit or loss



MAIN PROPOSALS IN THE ED

- Require **additional defined subtotals** in statement of profit or loss
- Strengthen requirements for **disaggregating information**
- Require disclosures about **management performance measures**



The IASB is proceeding with its deliberations and EFRAG Secretariat is providing regular updates to EFRAG TEG

KEY FACTORS CONSIDERED IN REDELIBERATIONS PLANNING

Project objective and focus

Improve how information is communicated in the financial statements, with a focus on the statement of profit or loss

Linkages between topics

Decisions on one topic may affect approach on another topic

Timeliness

Deliver high quality IFRS Accounting Standard in a timely manner

Efficiency

Use staff and IASB time efficiently

PROJECT STATUS AND REDELIBERATIONS TO DATE

Topic	Proposals discussed by the IASB	Proposals yet to be redeliberated
Subtotals	<ul style="list-style-type: none"> • Required subtotals • Classification in categories, general model • Associates and joint ventures 	<ul style="list-style-type: none"> • Classification by entities with specified main business activities • Remaining issues related to investing and financing categories
MPMs	<ul style="list-style-type: none"> • Scope and definition • Disclosure of reconciliation 	<ul style="list-style-type: none"> • Disclosure of tax and non-controlling interest • Single note, columns, cross-referencing, relationship with segments and other
Disaggregation	<ul style="list-style-type: none"> • Roles of primary financial statements and notes • General principles of aggregation and disaggregation • Direction for unusual income and expenses • Presentation of operating expenses • Direction for disclosure of operating expenses 	<ul style="list-style-type: none"> • Definition of unusual income and expenses, related disclosures • Disclosure of operating expenses • Proposals relating to items labelled 'other' and other remaining general disaggregation topics • Consequential amendments
Cash flow statement	<ul style="list-style-type: none"> • Most issues related to Statement of Cash Flows 	<ul style="list-style-type: none"> • Remaining proposals for statement of cash flows

KEY CHANGES TO THE ED

Subtotals and categories

Classification of income and expenses from cash and cash equivalents from financing to the investing category

Approach to classification of items in the financing category

Default category for gains and losses from derivatives and hedging instruments changed from investing to the operating category

Undue cost or effort relief for FX classification

Distinction between integral and non-integral associates and joint ventures removed as well as related subtotal

Add application guidance for some income and expenses in investing category, include objective in the Basis for Conclusions, and remove definition of 'income and expenses from investments'

Income and expenses from associates and joint ventures classified in investing category

Disaggregation

Include a reference to understandability in the description of the role of financial statements

Emphasise that single dissimilar characteristic can be enough to disaggregate if it is material

State the purpose of disaggregation more clearly and strengthen the application of disaggregation

Provide additional guidance to apply the principles, both in the primary financial statements and the notes.

Remove the proposed prohibition on a mixed presentation approach for operating expenses.

Remove 'limited predictive value' from definition of unusual items and add application guidance.

Revise the general principle for the presentation of line items and add application guidance.

KEY CHANGES TO THE ED

Management Performance Measures

Subtotal of income and expense used in the numerator or denominator of a ratio is MPM

In the definition, remove the reference to 'complementing'.

Introduce a rebuttable presumption that a subtotal used in public communications represents management's view of an aspect of the entity's financial performance, and add application guidance on rebuttal.

Add application guidance, and refer to general requirement for faithful representation, removing specific requirement.

Application guidance for disclosure of why an MPM communicates management's view of performance.

Disclose, for each reconciling item, amount(s) related to each line item in the statement(s) of financial performance.

Other


Amend the specified subtotal 'operating profit or loss before depreciation and amortisation' to exclude impairments of assets within the scope of IAS 36

PROJECT STATUS AND REDELIBERATIONS TO DATE

EFRAG SECRETARIAT ANALYSIS

- **Investing category:** The IASB has tentatively decided to add further application guidance to ensure consistent application. However, at this stage the IASB has not provided additional guidance on incremental expenses. The IASB will discuss this topic in the future.
- **Financing category, including classification of hybrid contracts:** the IASB tentatively decided to change its approach on the classification of items in the financing category and to add new detailed guidance (e.g., hybrid contracts). This may be considered a significant change to the ED, which respondents have not had yet the opportunity to comment. Considering this, the EFRAG Secretariat recommends the use of consultative groups and targeted consultation to support the IASB's decision to finalise its proposals.
- **Equity-accounted associates and joint ventures:** The IASB's tentative decision does not seem to be fully aligned with EFRAG Comment letter as EFRAG agreed with the distinction between integral and non-integral associates and joint ventures in the disclosures (but called for more application guidance), called for all the equity accounted investments to be presented below operating profit within a subtotal, highlighted that equity accounted investments may need to be reported in the operating category in particular circumstances, and asked for clarifications on how the IASB's proposals would apply to subsidiaries, associates and joint ventures in the separate financial statements.

 Partially aligned with EFRAG DCL


 Significant changes to the ED (need to consult)

 Important EFRAG requests not yet addressed


PROJECT STATUS AND REDELIBERATIONS TO DATE

EFRAG SECRETARIAT ANALYSIS

- **Presentation of operating expenses by nature or by function:** The IASB's tentative decisions are fairly aligned with EFRAG comment letter (e.g. provide more application guidance on the function of expense). The tentative decision to withdraw the strict prohibition of a mixed presentation also reduces the pressure on the distinction between presentation by-function and by-nature. However, the EFRAG Secretariat considers that the IASB should clarify when and to which extent entities may use mixed presentation, particularly when considering minimum line items, financial conglomerates and use of 'unusual items' on the face (e.g. restructurings).
- **Minimum line items:** the IASB has not yet considered requiring, through minimum line items or subtotals, disaggregation of equity on the face of the statement of financial position.
- **Unusual items:** Although the IASB has not concluded its discussions and has decided to develop application guidance on unusual items (as requested by EFRAG), the IASB has not clarified or addressed, at this stage, many of EFRAG's requests (e.g. whether the whole amount should be recognised as unusual or only the incremental part of it when the amount varies significantly from previous periods). The definition of unusual items continues to seem to be narrow, as it focuses on whether expenses/income will occur in the future.

 Important requests not yet addressed


 Partially aligned with EFRAG DCL


 Important EFRAG requests not yet addressed


PROJECT STATUS AND REDELIBERATIONS TO DATE

EFRAG SECRETARIAT ANALYSIS - MPMs

- **MPMs – Scope** - EFRAG called for the IASB to include measures related to the balance sheet and ratios. However, the IASB has tentatively decided to not widen the scope of the MPMs to avoid scope creep and be aligned with the focus of the project.
- **MPMs – Definition** - The IASB addressed some of the concerns related to narrowing the definition of public communication. However, the EFRAG secretariat expresses concerns on establishing a rebuttable presumption that a subtotal of income and expenses included in public communications outside financial statements represents management’s view of the entity’s financial performance and to provide application guidance on how to assess whether the entity has reasonable and supportable information to support the rebuttal. This would increase the complexity and disclosures on this topic. Instead, the EFRAG Secretariat would prefer an improved definition of MPMs that clearly states which measures are in the scope (i.e. those developed by management and not defined or specified by IFRS) and which measures are typically out of the scope (e.g. performance measures required by regulators)
- **MPMs - Disclosures**: the IASB tentative decision to require an entity to disclose, for each reconciling item, the amount(s) related to each line item(s) in the statement(s) of financial performance, is a significant change to the ED which has not been tested and respondents did not have the opportunity to comment. The ED itself was less prescriptive and the illustrative example provided by the IASB was just a way of providing the information (not a specific format required by the main standard).

 Important request not addressed

 Significant changes to the ED (need to consult)


 Significant changes to the ED (need to consult)

PROJECT STATUS AND REDELIBERATIONS TO DATE

EFRAG SECRETARIAT ANALYSIS

- **EBITDA:** the IASB has considered the issue of excluding impairments from assets that are amortised or depreciated. However, the IASB has not yet clarified whether EBITDA and other similar measures should be included in the scope of the IASB's proposals regarding MPM disclosures if they do not represent operating profit or loss before depreciation, amortisation, and specified impairments'.
- The EFRAG Secretariat agrees with the IASB's approach for redeliberation's until now, however highlights the importance of ensuring that both its decision on presentation and disclosures are relevant for entities with specified main business activities (e.g. financial institutions). Therefore, the IASB should proceed with its discussions on the different topics (for all corporate entities) and ensure at the end of the discussions that the proposals are adequate for entities with specified main business activities (e.g. financial institutions).

 Partially aligned with EFRAG DCL

 No issues

FEEDBACK RECEIVED FROM EFRAG TEG-CFSS

- **MPMs – Scope:** EFRAG FR TEG-CFSS members highlighted that if the IASB was not going to expand the scope of MPMs, it should at least allow entities to disclose MPMs related to the statement of financial position and ratios (e.g. net debt-to-EBITDA) as it would help management to better explain how it manages the business
- **MPMs – Reconciliation:** Members highlighted the costs and challenges of providing reconciling adjustments on income tax and non-controlling interest for MPMs, which would have to be audited
- **Unusual items:** Members acknowledged the challenges of reaching a consensus on ‘unusual items’ and suggested that the IASB considers already provided by regulators
- **Analysis of expenses:** When discussing the analysis of operating expenses in the disclosures, members highlighted the challenges and costs associated with a partial matrix approach suggested by the IASB Staff and suggested target outreach on this topic to better assess the costs and benefits of such an approach
- **Next steps:** members considered that some target consultation may be needed to avoid re-exposure on some topics. Nonetheless, at this stage the IASB should proceed with its discussions and later decide next steps



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THANK YOU



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