

# PRIMARY FINANCIAL STATEMENTS

ROUNDTABLE WITH FINANCIAL INSTITUTIONS:  
KEY MESSAGES RECEIVED IN ADVANCE

2 November 2022



# SUBTOTALS AND CATEGORIES

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## STRUCTURE AND CONTENT OF FINANCIAL STATEMENTS

- **Operating profit subtotal:** questioned the merit of the operating profit subtotal for banks, particularly when considering that associates and joint ventures accounted for under the equity method and specified income and expenses on other liabilities are presented outside of the operating category while considered part of operations or/and immaterial
- **Items that should not be included in operating profit:** operating profit should not include non-recurring income and expenses. If these are presented outside the operating category the MPMs reconciliation would be easier as presentation would be more aligned with management's view of the business
- **Financing category:** expressed concerns on the impact of the revised proposal for classifying income and expenses within the financing category in the bank and insurance companies
- **Financing category - Interest expenses on lease liabilities:** having some interest expense or interest income outside of operating does not make sense for banks

# SUBTOTALS AND CATEGORIES

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## STRUCTURE AND CONTENT OF FINANCIAL STATEMENTS

- **Definition of main business activity:**
  - high level of judgement that could lead to divergence in practice
  - Identified the IASB clarifications on investing or providing financing to customers as a main business activity is a matter of fact and not an assertion as an issue for discussion
- **Investing category:** the definition of investing does not make sense for banks that focus on providing financing and other banking products to their customers
- **Income and expenses from cash and cash equivalents:** from a bank point of view, the focus is on net interest margins and there is no difference based on the type of financial instruments
- **Connection with Balance Sheet:** the classification of income and expenses in PL should be coherent with the classification of the related asset / liabilities in the BS - entities need to assess on an asset-by-asset basis whether investments are made in the course of their main business activities to ensure that BS and PL have similar aspects that should be considered in conjunction

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## CLASSIFICATION OF DERIVATIVES

- **‘Grossing up gains and losses’:** Call for clarifications on the meaning of ‘grossing up gains and losses’ and allocation process
- **Classification in the operating category:** expectation that for financial institutions gains and losses from derivatives would automatically end up in the operating category via the “risk strategy“ and ‘main business activities’ requirements. Uncertainly only on the presentation of subordinated instruments (subordinated capital valued at FV option)

# SUBTOTALS AND CATEGORIES

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## ASSOCIATES AND JOINT VENTURES

- **Focus on entity's business model:** Integral associates or holdings of similar investments with a lower ownership interest which are part of main business activities should be presented within operating profit
- **Need for a new classification approach:** would like to discuss a proposal on the need for a new, more flexible definition for classifying the share of results of associates in operating result, in particular cases

# SUBTOTALS AND CATEGORIES

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## ASSOCIATES AND JOINT VENTURES – INSURANCE COMPANIES

- Expressed concerns on the mandatory presentation of income and expenses from equity accounted associates and joint ventures outside of operating profit
- Highlighted the importance of presenting the investments in associates and joint ventures that are linked to insurance contracts and made in the context of their main business activities within operating profit . Else, there is an asset-liability management mismatch
- For investments with the same purpose the IASB seems to create a distinction based on the measurement and level of participation, which was not considered relevant
- Only some of the associates and joint ventures of the group would meet the requirements for a FVPL measurement in accordance with IAS 28
- Currently, only the portion of an associate that is an underlying item for insurance contracts accounted for under the VFA is measured at FVPL whereas the remaining part is accounted for using the equity method
- A separate presentation of income and expenses from associates and joint ventures accounted for using the equity method within the operating category would allow users to make any necessary adjustments

# SUBTOTALS AND CATEGORIES

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## PRESENTATION OF OPERATING EXPENSES

- **Mixed presentation:** welcomed the IASB tentative decision to drop the prohibition on a mixed presentation. As a financial conglomerate, the banking business is presented by nature and the insurance business by function. However, challenges in practice remain

# DISCLOSURES

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## OPERATING EXPENSES BY NATURE WHEN PRESENTING BY FUNCTION

- **Disclosures by nature when using mixed presentation:** as a financial conglomerate, unconvinced about exploring additional disclosure requirements. Disclosure requirements should not lead to a factual obligation to disclose by nature what is presented by function in the income statement and vice versa

## MANAGEMENT PERFORMANCE MEASURES

- **MPM reconciliation and disclosures:** of : the proposed simplified solution for the income tax effects for each reconciling item would remove large part of operational complexity, but the method can lead to oversimplifications and the disclosed amounts can be very different to the actual effects. Not also in favour of complex and costly calculations

## UNUSUAL ITEMS

- **Withdrawal of guidance on unusual income and expenses:** welcomed the IASB decision to withdraw the requirement to define and disclose information on unusual income and expenses

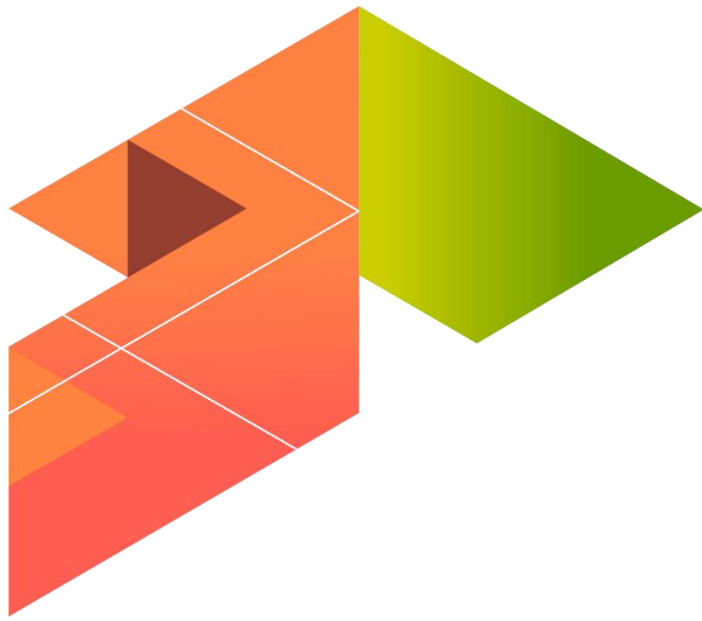




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THANK YOU



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