

# PRIMARY FINANCIAL STATEMENTS

ROUNDTABLE WITH CORPORATES:  
KEY MESSAGES RECEIVED IN ADVANCE

4 November 2022



# SUBTOTALS AND CATEGORIES

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## STRUCTURE AND CONTENT OF FINANCIAL STATEMENTS

- **Terminology:** concerns on the new categories used in the statement of profit or loss which are not aligned with those in the statement of cash flows - having similar labelling may raise confusion
- **Practical application concerns:** questions/concerns related to the practical application of the concept of categories:
  - **Operating category:**
    - *Presentation of operating expenses:* the presentation of operating expenses is a key issue, as this might have the biggest impact (data generation, audit effort, etc.)
    - Lack of definition for operating category and its implications
    - Lack of explanation regarding components of COGS
  - **Financing category:** Unclear where interests from overdue operating receivables (income) and payables (cost) would be classified

# SUBTOTALS AND CATEGORIES

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## ASSOCIATES AND JOINT VENTURES

### **Different views on integral and non-integral:**

- appreciate the removal of the distinction between integral vs. non-integral associates and JVs
- support the original proposal in the ED to classify equity-accounted associates and JVs as either integral or non-integral to the entity's main business activities and to present integral equity accounted investments within the operating category because:
  - it will provide better information to users about an entity's performance and core business and enhance an entity's ability to reflect its operating results
  - the split would provide useful information for the management to assess performance, allocate relevant resources and execute business strategies
  - it should be a policy choice to identify and classify integral vs non-integral associates and JVs similar to operating segments identification in IFRS 8 based on management's view

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## PRESENTATION OF OPERATING EXPENSES

### **By nature, by function & mixed presentation - practical application concerns**

- *Mixed presentation of operating costs by nature and by function* – allowing mixed presentation of operating expenses risks losing understandability of statement of financial performance
- Application guidance on the presentation of depreciation, amortization and employee benefits per functional cost area (e.g. to which amount are delta positions acceptable)

# DISCLOSURES - DISAGGREGATION

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## DISCLOSURE OF OPERATING EXPENSES BY NATURE WHEN PRESENTING BY FUNCTION

### Disclosure of nature line items

- appreciate the proposals for a more targeted disclosure of operating expenses by nature in the notes (i.e., to focus on depreciation, amortization and employee benefits)
- extending the proposal to other operating expenses in addition to depreciation, amortization and employee benefits, if the system set-up allows it, could result in higher costs for preparers

### Principle of disaggregation – concerns:

- lacks a requirement to disclose costs by nature vs costs by function
- presentation of costs by nature per each functional line item vs presentation of costs by nature vs costs by function

# DISCLOSURES

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## MANAGEMENT PERFORMANCE MEASURES

### Scope – questions/concerns related to MPMs:

- EBITDA as a label for ‘operating profit before depreciation, amortization and specified impairments’ will not be prohibited, however, would not be considered faithful representation of it. Would EBITDA then still be considered an MPM or not?
- Lack of definition for EBITDA
- Definition of MPMs vs required disclosures for MPMs
- How „used in public communications outside financial statements” can be applied for private non-listed companies

### Disclosures:

- presenting the effect of tax on each MPM reconciling item could be difficult
- Narrower disclosures for MPMs

# OTHERS

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## DERIVATIVES, HEDGING AND FX

- *Gains and losses from derivatives not used for risk management* – the costs of classification of such gains and losses in the operating category, unless it relates to financing, might outweigh the benefits of it. Moreover, this proposal does not align with users' feedback to identify normalized earnings by including volatile and unusual items in the operating category

## UNUSUAL ITEMS

- Discontinuance of unusual items – will it be a topic of another project?



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