

PRIMARY FINANCIAL STATEMENTS

ROUNDTABLE WITH CORPORATES:
KEY MESSAGES RECEIVED IN ADVANCE

24 October 2022



SUBTOTALS AND CATEGORIES

STRUCTURE AND CONTENT OF FINANCIAL STATEMENTS

- **Terminology:** concerns on the terminology used and link to cash flow statement – categories should not have identical names with different content
- **Practical application concerns:** Questions/concerns related to the practical application of the concept of categories to certain types of transactions. For example, there was a call for guidance on the classification of the following items:
 - *Gains/losses on business disposals:* should it be part of the operating or investing category? If in operating category, can it be presented as a separate function (if material)
 - *Change of FV to puts on NCI:* What would be the appropriate category?
 - FX gains/losses on IG transactions
 - *Monetary corrections of hyperinflation economies:* What would be the appropriate category?

SUBTOTALS AND CATEGORIES

INVESTING AND FINANCING CATEGORY

- **Practical application concerns:** Financing and investing categories clearer, though some items still not entirely clear - called for guidance on the classification of:
 - Discounting of assets, including pension assets (overfunded plans);
 - Interest (income and expense) and penalties related to tax disputes;
 - Currency changes on internal loans and cash pooling in multinational groups - operating is not perceived as a natural home.
- **Cash and cash equivalents:** Questions on whether income/expense from cash and cash equivalent should be presented in the financing category (rather than in the investing category).
- **Financing costs:** Considered that 'interest' (financing category) was narrowly defined as it should include transaction costs and allow cost of borrowing concept.
- **Investments in the operating category:** Considered that all investments that contribute to main business activities should be included in the operating category.

SUBTOTALS AND CATEGORIES

ASSOCIATES AND JOINT VENTURES

- **Can be in operating or investing:** Considered that associates and joint ventures that contribute to main business activities should be included in operating category – only in the investing category when it is simply a financial investment
- **Different views on integral and non-integral:**
 - No concerns with the removal of the concept of integral associates and JVs
 - Disagreed with the IASB tentative decision to withdraw the distinction between integral and non-integral

SUBTOTALS AND CATEGORIES

PRESENTATION OF OPERATING EXPENSES

- **By nature, by function & mixed presentation:**
 - Appreciate the removal of the mix-approach prohibition as it avoids arbitrary allocations (e.g., goodwill impairment)
 - Do not think that mixed approach is justifiable - consider limiting the use of mix presentation
 - Indicated some application concerns:
 - Restructuring operations (can it be a functional line item?)
 - Impairment of fixed assets (and by extension natural events related destructions, war and riots, litigations) - Can impairment be presented separately when the entity applies the presentation of operating expenses by function?
- **Description of the function of expense method:** Concerns about the risk of more rigid definition of the functions
- **Implementation:** Identified some challenges (e.g. IT)

DISCLOSURES - DISAGGREGATION

OPERATING EXPENSES BY NATURE WHEN PRESENTING BY FUNCTION

- **Disclosure of total operating expenses by nature:** Had no concerns with the previous IASB approach to present total operating expenses using the nature of expense method
- **Partial matrix approach:** Concerns about the practical application of a (partial) matrix concept for the disclosures of operating expenses by nature - the “of-which” presentation is a major concern - any matrix approach should be avoided, even if partial

DISCLOSURES

MANAGEMENT PERFORMANCE MEASURES

- **Scope:** MPMs should include ratios, balance sheet and cash flow measures
- **Scope:** how the requirement will work with the ESMA or other regulatory requirements will depend also on the regulatory adjustments to the new IFRS
- **Reconciliations:** considered that the reconciliation may be a significant effort, the combination of by individual line and tax and NCI effect by item may result in complex presentation. If also presented by segment (our current practice) it may become quite complex. Can it be done by subtotal rather than line item?
- **Presentation:** MPMs should be permitted on the face to allow consistency with internal management reporting
- **Disclosures:** No concerns with MPM disclosures
- **Specified subtotals** - Concerns on specified subtotals

DISCLOSURES - DISAGGREGATION

UNUSUAL ITEMS

- Support removal of unusual income and expense not defined as there is no consensus on what it is

OTHERS

DERIVATIVES, HEDGING AND FX

- Derivatives and hedging fit well within operating as default category
- No concerns on FX allocation to the underlying categories
- Results of derivatives should match the base contract
- Suggested that 'interest' derivatives and hedging instruments should be presented in the financing category



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EFRAG
Aisbl - ivzw
35 Square de Meeüs
B-1000 Brussel
Tel. +32 (0)2 210 44 00
www.efrag.org

