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Primary Financial Statements Cover Note

Objective

- 1 The objective of this session is to discuss:
 - (a) the scope of the IASB's research project *Primary Financial Statements*; and
 - (b) the outcome of the research activities undertaken by the IASB and EFRAG Staff.

Background

- 2 In 2004 the IASB and the FASB decided to work on financial statement presentation and in October 2008 the boards published the Discussion Paper *Preliminary Views on Financial Statement Presentation*. In its comment letter, EFRAG welcomed the proposals included in the Discussion Paper. However, it was concerned that the proposals would result in too many line items being included in the primary financial statements which could decrease the relevance of the information presented. EFRAG also did not support the proposal to require the use of the direct method of presenting operating cash flows.
- 3 In the context of PAAinE (Pro-active Accounting Activities in Europe), in November 2006 EFRAG and ICAC published a Discussion Paper entitled [*What \(if anything\) is wrong with the good old income statement?*](#). The Discussion Paper identified and analysed the arguments of those who believed that a fundamental change was needed to the existing performance reporting model. Subsequently, EFRAG and ICAC published in 2009 a second PAAinE Discussion Paper [*Performance Reporting*](#). The purpose of this paper was to discuss some fundamental issues about the presentation of financial performance, including the definition of performance, key line items, recycling and disaggregation models.
- 4 In 2011, respondents to the IASB's Agenda Consultation urged the IASB to address the reporting of financial performance as a priority topic. They thought that the IASB should provide guidance on the recognition of income and expenses outside the statement of profit or loss (OCI) and recycling. In its letter to the IASB, EFRAG also highlighted the importance of financial performance but considered that the reporting of performance and its inter-relationships with measurement should be dealt within the Conceptual Framework project.
- 5 In July 2014, the IASB added the *Performance Reporting* project to its research agenda (which was renamed to *Primary Financial Statements* in June 2015), mainly in response to the strong demand from investors to undertake a project on performance reporting.

- 6 In 2015, respondents to the IASB’s Agenda Consultation who commented on a financial reporting project gave it a high priority. In its letter to the IASB, EFRAG highlighted the importance of a project on financial reporting and expressed concern that no substantial progress had been made on the project since the 2011 Agenda Consultation. EFRAG noted that users had called for progress on this project and considered that the focus of the project should be on reporting financial performance.

Latest developments

- 7 More recently, in April and June 2016 EFRAG TEG and EFRAG CFSS discussed the feedback received by the IASB within in its 2015 Agenda Consultation and what the IASB should focus on in its research project.
- 8 In general, EFRAG TEG and EFRAG CFSS members supported the IASB focussing its research project on the structure and content of the statement of financial performance and investigating whether there is any demand for changes in the statements of cash flows and of financial position. Many members suggested that the IASB could develop general principles that would assist management to disaggregate information in the statement of financial performance. Further, some believed that a practice statement setting out general principles on the use of Alternative Performance Measures (“APM”) could be useful, particularly when these measures are mentioned in the primary financial statements. However, one member was concerned that too much emphasis on the topic of digital technology could lead to standardisation.
- 9 In June and November 2016, the staff of the UK Financial Reporting Council presented the Discussion Paper *Improving the Statement of Cash Flows*. EFRAG TEG and EFRAG CFSS members considered that the Statement of Cash Flows could be improved and highlighted a number of specific issues that needed to be addressed, including some of the definitions and options that exist in IAS 7 *Statement of Cash Flows*, the linkage between the different primary financial statements and better articulation of the objective of the statement of cash flows. However, mixed views were expressed on some of the other proposals in the Discussion Paper.
- 10 In November 2016 the IASB discussed the IASB Staff research activities (described in agenda paper 10-03) and in December 2016 the IASB discussed the scope of the project (agenda paper 10-02).

Agenda Papers

- 11 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 10-02 – Scope of the project; and
 - (b) Agenda paper 10-03 – Research Activities.