Summary of the IASB and EFRAG TEG-CFSS discussions

Topic	IASB's tentative decisions	EFRAG TEG-CFSS discussions
General	The IASB tentatively decided to focus on targeted improvements to: a) the statement(s) of financial performance and b) the statement of cash flows. In September 2018, the IASB decided to move the project to its standard-setting agenda. The IASB will decide at a later stage of the project whether to issue a Discussion Paper or an Exposure Draft as the first due process output of the project.	EFRAG TEG and EFRAG CFSS considered that the IASB still needed to do more research on performance reporting by financial institutions and multi-sector groups before moving to a standard-setting phase. Some members doubted that some of the tentative decisions of the IASB for non-financial institutions could be applied to financial institutions – for instance, an EBIT sub-total does not seem relevant. They suggested to consider first the information objectives before discussing structures and pointed out that single models may not work even within industries. There was overall support for looking more closely at changes in equity, to improve the statement of cash flows and support for more useful guidance on alternative performance measures.

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Statement(s) of financial performance—project scope	The IASB tentatively decided to explore the following: c) requiring additional subtotal(s) in the statement(s) of financial performance; d) removing some of the options for presentation of income and expenses in existing IFRS Standards (eg presentation of net interest cost on the net defined benefit liability); e) providing guidance on use of performance measures, including separate presentation of non-recurring, unusual or infrequently occurring items; and f) better ways to communicate information about OCI.	EFRAG TEG and EFRAG CFSS expressed some support for the direction of the proposals. However, there was concern about how the approach would work for non-manufacturing types of entities. There was a range of concerns around how to provide a reasonable degree of comparability for investors whilst accommodating the range of business models.
Statement(s) of financial performance - financing activities	The IASB agreed to explore requiring the presentation of the subtotal **profit or loss before financing and income tax**. The IASB tentatively decided that **finance income or expenses** should consist of the following separate line items in the statement(s) of financial performance: a) 'interest income from cash and cash equivalents calculated using the effective interest method'; b) 'other income from cash, cash equivalents and financing activities'; c) 'expenses from financing activities'; d) 'other finance income'; and e) 'other finance expenses'. '**Cash and cash equivalents'** is used in the definition of 'finance income/expenses' as a proxy for cash and temporary investments of excess cash. The IASB also noted that a separate line item for impairment of cash and cash equivalents may be needed, if material.	EFRAG TEG and EFRAG CFSS expressed support for finding a balance between a principle-based definition of finance income/expense and one that would lend itself to a reasonable level of comparability. There was doubt about whether cash and cash equivalents would be a suitable proxy of excess cash.

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	'Other finance income' and **'other finance expenses'** comprises 'interest' income/ expenses on liabilities that do not arise from financing activities (unwinding of a discount). The IASB tentatively decided to **clarify the description of** '**financing activities**' in IAS 7 *Statement of Cash Flows* by indicating that a financing activity involves: a) the receipt or use of a resource from a provider of finance (or provision of credit). b) the expectation that the resource will be returned to the provider of finance. c) the expectation that the provider of finance will be appropriately compensated through the payment of a finance charge. The finance charge is dependent on both the amount of the credit and its duration.	
Statement(s) of financial performance - investing category	The IASB agreed to explore the introduction of an investing category into the statement(s) of financial performance labelled as '**income/expenses from investments'** a) to define 'income/expenses from investments' using a principle-based approach as 'income/expenses from assets that generate a return individually and largely independently of other resources held by the entity'; b) to provide a list of some items that would typically be treated as 'investing' and a list of some items that would typically not be treated as 'investing'; c) to label the subtotal before the 'income/expenses from investments' category as '**operating profit or loss and share of profit or loss of integral associates and joint ventures**'.	EFRAG TEG and EFRAG CFSS expressed some support for the direction of the proposal. However, there were concerns about how the IASB's proposed approach would work when applied to other types of entities. There was a range of concerns around how to provide a reasonable degree of comparability for investors whilst accommodating the range of business models. Members cautioned against an overly prescriptive approach for the structure of the statement of financial performance as it could raise industry specific issues (e.g. financial institutions) and not accommodate the needs of entities with complex business models (e.g. conglomerates).
Statement(s) of financial performance -	The IASB tentatively decided that entities should be required to present the results of 'integral' associates and joint ventures separately from those of 'non-integral' associates and joint ventures.	EFRAG TEG and EFRAG CFSS members expressed general support for presenting separately the share of profit or loss of integral associates or

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associates and joint ventures	The project's first due-process document should: a) use the IASB's proposed definition of 'income/expenses from investments' as the basis for the split between integral and non-integral investments in associates or joint ventures, and include a non-exhaustive list of indicators that could be used in making this distinction. b) propose the presentation in the statement(s) of financial performance of the share of profit or loss of integral associates or joint ventures as a line item above the 'income/expenses from investments' category (i.e. above **'operating profit or loss and share of profit or loss of integral associates and joint ventures'**) and require a new subtotal above that line item labelled **operating profit**. c) discuss all of the alternative approaches considered by the IASB for presenting the share of the profit or loss of integral associates and joint ventures, both within and outside the 'income/expenses from investments' category, and the IASB's reasons for rejecting those approaches. The IASB suggested that the following indicators (subject to drafting improvements) should be included to help preparers decide whether an associate or joint venture is 'integral': a) the existence of integrated lines of business across the entity and the associate or joint venture that lead to dependency on the associate or joint venture; b) the associate or joint venture's critical supplier or customer status; c) the reporting entity and the associate's or joint venture's sharing of a name or brand; and d) the sharing of capital or borrowing sources, such that the financing for the entity and the associate or joint venture is interrelated. In addition, the IASB tentatively decided to:	joint ventures and the share of profit or loss of non-integral associates or joint ventures. However, there were mixed views on where and how the share of profit or loss of integral associates or joint ventures should be presented in the statement of financial performance.

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	a) state that the proposed list of indicators should not be prioritised in any way. b) state that the classification of an associate or joint venture as integral or non-integral shall be changed only if the relationship between the reporting entity and the associate or joint venture changes. c) amend the disclosure requirements of IFRS 12 *Disclosure of Interests in Other Entities* to reflect the introduction of the integral and non-integral categorisation of associates and joint ventures by requiring: i. the disclosure in paragraph 20 to be split between 'integral' and 'non-integral' associates and joint ventures; ii. additional disclosure of the factors considered when determining whether associates and joint ventures are 'integral' or 'non-integral'; and iii. additional disclosure where an equity accounted investment has been reclassified in the period, to indicate how its relationship with the reporting entity has changed.	
Scope of subtotals	The IASB tentatively decided to define the scope of the three proposed subtotals: a) profit or loss before financing and income tax. b) operating profit or loss and share of profit or loss of integral associates and joint ventures'. c) operating profit. For the 'profit or loss before financing and income tax' subtotal, the IASB tentatively decided in principle that: a) entities are not required to present a 'profit or loss before financing and income tax' subtotal if their main business activity is to provide financing to customers and if they separately present financing income.	There was support for finding a balance between a principle-based definition of EBIT and one that would lend itself to a reasonable level of comparability. There was doubt about whether cash and cash equivalents would be a suitable proxy. Members expressed the view that having a more consistent approach and a more prescribed EBIT line item could limit the relevance and understanding of how the management ran the business. Overall, members arguing for a management approach considered that it would be too difficult to be more prescriptive and that it would provide better information.

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	b) entities that do not present a 'profit or loss before financing and income tax' subtotal shall include in the 'operating profit' subtotal: i. interest income on cash and cash equivalents calculated using the effective interest method; ii. other income from cash and cash equivalents and financing activities; and iii. expenses from financing activities. c) entities with insurance finance income or expenses should include it in the operating profit subtotal. (Applying the proposals in the section on the scope of the IASB's proposal for a 'operating profit or loss and share of profit or loss of integral associates and joint ventures' subtotal, related investment income and expenses would also be included in that subtotal.) For the '**operating profit or loss and share of profit or loss of integral associates and joint ventures'** subtotal, the IASB tentatively decided in principle that a) entities are not required to present this subtotal if, in the course of their main business activity, they invest in assets that generate a return individually and largely independently from other resources held by the entity. b) entities that do not present this subtotal shall include income/expenses from investments made in the course of their main business activity within the 'operating profit' subtotal and below that subtotal present all other income/expenses from investments. The IASB tentatively decided in principle that entities whose main business activities comprise investing and providing financing to customers are: a) not required to present a 'profit or loss before financing and income tax' subtotal and shall include, within the 'operating profit' subtotal, the following line items:	Members acknowledged that EBIT are often used in practice and that additional guidance could bring more transparency and consistency on their use. However, some members expressed concerns about having a prescriptive definition of EBIT and requiring its use as it would raise industry-specific issues (e.g. financial institutions). Finally, some EFRAG TEG members considered that it was important to clarify how the EBIT and management performance measures would interact with each other within the statement of profit and loss and other comprehensive income.

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	i. interest income on cash and cash equivalents calculated using the effective interest method; ii. other income from cash and cash equivalents and financing activities; and iii. expenses from financing activities. b) entities not required to present this subtotal shall include income/expenses from investments made in the course of their investing business activity within the operating profit' subtotal and below that subtotal, present all other income/expenses from investments. The IASB tentatively decided that all entities are required to separately present the share of profit or loss from integral and non-integral associates and joint ventures below the 'operating profit' subtotal.	
Statement(s) of financial performance - other comprehensive income (OCI)	The IASB tentatively decided to rename the two categories in the OCI section of the statement(s) of financial performance as follows: a) 'remeasurements reported outside profit or loss' (currently 'OCI items that will not be reclassified subsequently to profit or loss'); and b) 'income and expenses to be included in profit or loss in the future' (currently 'OCI items that will be reclassified subsequently to profit or loss') The IASB tentatively decided the staff should explore whether there is demand to remove the following presentation options in IAS 1 *Presentation of Financial Statements for OCI*: i. presenting items of OCI either net of related tax effects, or before related tax effects (paragraph 91 of IAS 1); and ii. presenting reclassification adjustments in the statement(s) of financial performance or in the notes (paragraph 94 of IAS 1).	EFRAG TEG and EFRAG CFSS did not think that the proposal to rename the two categories in the OCI would improve understanding of the statement of OCI. Members noted that the proposed new definitions were not rightly describing the items included in the particular sections of OCI and the project should rather consider conceptual definition of OCI. Additionally, the proposal to rename the categories in the OCI might result in uncertainty and create confusion about meaning of definitions. Suggestion was made that to provide better information on OCI, the starting point would be the amounts accumulated in equity and better information about the amounts that would affect the profit or loss. Members noted that it will be difficult to significantly improve the understandability of OCI without addressing the distinction between profit and OCI

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<tr><td></td><td></td><td>and the role of recycling. Members generally did not consider that it would be useful to modify the title or insert a sub-total between the two categories of OCI items.</td></tr>
<tr><td>Management performance measure</td><td>The IASB tentatively decided that all entities shall identify a measure (or measures) of profit or comprehensive income that, in the view of management, communicates to users the financial performance of the entity. This measure will:
a) often only be a subtotal or total specified by paragraph 81A of IAS 1.
b) sometimes be identified by management as a measure that is not a subtotal or total specified by paragraph 81A of IAS 1, but would complement those subtotals or totals. Such a measure is a management performance measure.
The following requirements apply to management performance measures described in paragraph b):
a) a reconciliation would be provided in the notes between that measure and the most directly comparable subtotal or total specified by paragraph 81A of IAS 1;
b) that there should be no specific constraints on management performance measures;
c) the measure would be labelled in a clear and understandable way so as not to mislead users; and
d) the following information is required to be disclosed:
i. statement that the measure provides management's view of the entity's financial performance and is not necessarily comparable with measures provided by other entities;
ii. a description of why the management performance measure provides management's view of performance, including an explanation of • how the management performance measure has</td><td>EFRAG TEG and EFRAG CFSS welcomed the IASB's discussion on additional subtotals, however provided mixed views on the presentation of management performance measures in the statement of financial performance and considered that the IASB should further clarify its intentions.
The EFRAG TEG gave support on having guidance on presentation of MPMs on the face of the statement of financial performance, however, members noted that the focus of MPMs was, primarily, on profitability measures. It was also noted that MPMs included in the financial statements were not covered by the existing ESMA Guidelines on Alternative Performance Measures and thus should be considered in the project.
Members acknowledged that Management Performance Measures are often used in practice and that additional guidance could bring more transparency and consistency on their use.
However, concerns were expressed about requiring the use of MPMs and elevating them into an IFRS-defined term.</td></tr>
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	been calculated and why; and how the measure provides useful information about an entity's financial performance iii. sufficient explanation, if there is a change in how the management performance measure is calculated during the year, to help users understand the reasons for and effect of the change. e) that the reconciliation between the management performance measure and the most directly comparable subtotal or total specified by paragraph 81A of IAS 1 should be provided separately from the operating segment information disclosed in accordance with IFRS 8 Operating Segments. However, entities would not be prohibited from also including management performance measures within the operating segment information. Furthermore, the following information would be required to be disclosed: i. an explanation of how the management performance measure differs from the total of the measures of profit or loss for the reportable segments; and ii. if none of the management performance measures fits into the operating segment information, an explanation of why this is the case. For the purposes of these proposals, paragraph 81A of IAS 1 would include the existing subtotals in that paragraph, the proposed new required subtotals developed as part of this project, for example, profit before investing, financing and tax. The IASB tentatively decided to expand the list of subtotals and totals that would not be considered management performance measures to include the following commonly used subtotals: profit before tax, profit from continuing operations, and gross profit, defined as revenue less cost of sales. The IASB members advised caution in drafting to clearly distinguish these three commonly used subtotals from those that are specifically required to be presented by all entities in paragraph 81A of IAS 1. The IASB also asked the staff to clarify in drafting that management performance measures provide additional information that complements	

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<tr><td></td><td>the subtotals and totals specified by paragraph 81A of IAS 1, rather than provides a better view of financial performance.

The above tentative decisions describe disclosure requirements for management performance measures in the notes only. Consequently, it does not affect the presentation of additional subtotals in the statement(s) of financial performance in accordance with paragraphs 85–85A of IAS 1.

The IASB tentatively decided to require the reconciliation described in paragraph b(i) to be disclosed in the notes rather than be provided below the statement(s) of financial performance.</td><td></td></tr>
<tr><td>Adjusted earnings per share (EPS)</td><td>The IASB tentatively decided that, if an entity identifies a management performance measure,
a) it will be required to disclose in the notes the effect of tax and non-controlling interests separately for each of the differences between the management performance measure and the most directly comparable subtotal or total in paragraph 81A in IAS 1.
b) it will not be required to disclose in the notes adjusted EPS calculated consistently with the management performance measure.

The IASB also tentatively decided that
a) an entity would continue to be permitted to disclose adjusted EPS.
b) an entity would be prohibited from presenting adjusted EPS in the statement(s) of financial performance.</td><td>EFRAG TEG and EFRAG CFSS expressed the view that Primary Financial Statements was not the right project to consider EPS measures.

In addition, some EFRAG TEG members emphasised the practical challenges of providing disclosures about the effect of tax and non-controlling interest for the purpose of adjusted earnings per share calculations.</td></tr>
<tr><td>Statement of cash flows—general</td><td>The IASB tentatively decided to:
a) remove from IAS 7 options for the classification of interest and dividends paid and of interest and dividends received and prescribe a single classification for each of these items.
b) clarify that:</td><td>EFRAG TEG and EFRAG CFSS expressed general support for targeted improvements to the statement of cash flows including:
• separate presentation of cash flows that arise with integral and non-integral associates and joint ventures;</td></tr>
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	i. cash flows arising from interest incurred on financing activities should be classified as financing cash flows. ii. cash flows arising from interest paid that is capitalised as part of the cost of an asset should be classified as financing cash flows. iii. cash flows arising from dividends paid should be classified as financing cash flows. c) amend the definition of 'investing activities' in IAS 7 to clarify that interest and dividends received should be classified as investing cash flows. The IASB tentatively decided: a) to require a consistent subtotal as the starting point for the indirect reconciliation of cash flows from operating activities. This subtotal should be 'profit before investing, financing and income tax'. b) not to align the operating section of the statement of cash flows with a corresponding section in the statement(s) of financial performance. c) not to make other further improvements to the statement of cash flows, besides those mentioned above.	• elimination of options for the classification of interest and dividends. Some EFRAG TEG members, however, expressed caution whether such elimination would result in useful information in cases when entities have mixed activities; • requiring a new subtotal of 'profit before investing, financing and income tax' as the starting point for the indirect reconciliation of cash flows from operating activities.
Statement of cash flows - associates and joint ventures	The IASB tentatively decided to propose: a) separate presentation of i. the investing cash flows that arise between an entity and its 'integral' associates and joint ventures and ii. the investing cash flows that arise between an entity and its 'non-integral' associates and joint ventures. The split between 'integral' and 'non-integral' associates and joint ventures would be the same for the statement of cash flows as for the statement(s) of financial performance.	

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	b) the separate presentation of the investing cash flows of 'integral' and 'non-integral' associates and joint ventures should be within the 'investing activities' section of the statement of cash flows.	
Other topics - project scope	The IASB tentatively decided to explore the following topics: a) development of templates for the statement(s) of financial performance, the statement of cash flows and the statement of financial position for a small number of industries. b) development of a principle for aggregating and disaggregating items in the primary financial statements. The IASB tentatively decided not to consider targeted improvements to the statement of financial position unless work on other areas of the primary financial statements identifies possible improvements to that statement. Additionally, the IASB tentatively decided that segment reporting and the presentation of discontinued operations should not be part of the scope of the project.	
Principles of aggregation and disaggregation	The IASB tentatively decided to develop: a) principles for aggregation and disaggregation in the financial statements; b) definitions of the notions 'classification', 'aggregation' and 'disaggregation; and c) guidance on the steps involved in applying 'classification', 'aggregation' and 'disaggregation' when preparing financial statements. d) guidance on disaggregation by nature and by function in the statement of financial performance The IASB tentatively decided to include a principle for determining the location of financial information in the primary financial statements or the notes that is based on the role of the primary financial statements and the	EFRAG TEG and EFRAG CFSS suggested the IASB not to be too prescriptive when developing guidance on level of aggregation and disaggregation as the goal should not be an absolute consistency among entities. Members did not support introduction of a quantitative threshold for improving the level of aggregation and disaggregation. Some members suggested that the IASB should focus on improved disaggregation instead of defining new subtotals in view as they considered that this would be simpler and more effective. EFRAG TEG and EFRAG CFSS did not oppose having additional guidance that would help entities

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	role of the notes suggested in Discussion Paper Disclosure Initiative—Principles of Disclosure. That principle would not override the specific requirements of IAS 1 for the presentation of minimum line items and subtotals in the primary financial statements. An entity should also apply that principle when a Standard allows entities to determine whether to provide financial information in the primary financial statements or in the notes. The IASB discussed whether to introduce numerical thresholds or rebuttable presumptions for aggregating or disaggregating financial information but decided not to introduce such thresholds. Instead, the IASB decided to explore whether principle-based guidance could be developed to encourage further disaggregation of large residual balances or 'other' balances. The IASB will explore further ways to improve disaggregation in the financial statements, which may include illustrating how different characteristics could be used to aggregate or disaggregate financial information. The IASB clarified that any further guidance developed in this respect would not override specific aggregation or disaggregation requirements in individual IFRS Standards. The IASB tentatively decided to: a) describe the 'nature of expense' method and the 'function of expense' method used to analyse expenses required by paragraph 99 of IAS 1. b) continue to require an entity to provide an analysis of expenses using the methodology, either by-function or by-nature, that provides the most useful information to users. c) describe factors that entities would consider to determine whether a by-function or by-nature methodology provides the most useful information to users. These are: i. which method provides the best information about the key components or drivers of profitability;	determine whether they should use a by-function or by-nature presentation of expenses. However, the EFRAG TEG noted that mixed model for presentation of the analysis of expenses by function and by nature was useful in some businesses. Members generally supported the IASB approach to require information by nature on a total basis at the entity level without the split by functional lines. Some members highlighted that entities often mix a by-nature and by-function presentation, that the absence of disclosures on the nature of expenses is a compliance issue and that the proposed clarification requiring entities to provide a by-nature disaggregation of each of the functional line items would increase the costs and complexity of current requirements.

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	ii. which method most closely matches how management reports internally to the IASB or key decision makers and the way the business is run; iii. peer industry practice; and iv. whether the allocation of expenses to functions would be so arbitrary that it would not provide a sufficiently faithful representation of the composition of an entity's functions. In such cases, a 'by nature' method should be used. d) provide no requirement for entities that use the 'nature of expense' method to provide additional information using the 'function of expense' method. e) require an entity to: i. present its primary analysis of expenses in the statement(s) of financial performance; and ii. when an entity provides primary analysis of expenses using a by-function methodology, require the entity to disclose in a single note additional information on the nature of the expense. This information would be provided at an entity level, not as a breakdown of each functional line presented.	