This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG IASB or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG IASB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Primary Financial Statements Update

Objective

1 The objective of this agenda paper is to provide EFRAG TEG members with an update on the IASB's latest tentative decisions on *Primary Financial Statements*.

Latest developments

2 The EFRAG Secretariat has provided updates to EFRAG TEG members on several occasions. In April 2019 the IASB Staff provided EFRAG TEG members an overview of the IASB's proposals on this project. In July 2019, EFRAG TEG received an update of the IASB's discussions in May 2019 and discussed how the IASB should structure the new requirements and topics of interest for future outreach events.

3 From June to September 2019, the IASB discussed:

(a) transition requirements and effective date;

(b) due process steps and permission to begin the balloting process;

(c) how the IASB should structure the new requirements; and

(d) a number of 'sweep issues' from the initial drafting and early consultations on the IASB's tentative decisions (Appendix 1 – Sweep issues).

Transition requirements and effective date

4 In June 2019, the IASB discussed the transition requirements and effective date of any new or amended IFRS Standard(s) and tentatively decided to require an entity to apply the general requirements concerning the **retrospective application** of changes in accounting policies, as set out in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, to new requirements arising from this project (including for changes related to unusual items and management performance measures ('MPMs')).

5 The IASB also tentatively decided to provide an implementation period of 18–24 months beginning from the date of issue of any new or amended IFRS Standard(s).

Due process steps and permission to begin the balloting process

6 In July 2019 the IASB reviewed the due process steps it had taken in the project and instructed the staff to prepare an exposure draft ('ED')for balloting. The IASB decided to allow 180 days for comment on the ED.

7 Two IASB members stated that they wanted to review the detailed drafting before deciding whether to dissent from the proposals in the ED.

How the IASB could structure the new requirements

8 In July 2019 EFRAG TEG and EFRAG CFSS members discussed how the IASB could structure its proposals for new requirements. Members expressed mixed views as to whether the IASB proposals should lead to (i) an amendment to IAS 1 *Presentation of Financial Statements*; (ii) replacement of IAS 1 with a new standard or (iii) an amendment to IAS 1 to remove the requirements related to disaggregation, structure and content of the primary financial statements and include the new requirements in a new standard. Members broadly agreed that the approach taken should consider the timing of completing the project as a priority.

9 The IASB discussed this topic at Accounting Standards Advisory Forum (ASAF) in July 2019 and ASAF members had different views on whether the proposals should be presented as amendments to IAS 1 or as a new IFRS Standard. However, there was the view that splitting the requirements of IAS 1 into two or more IFRS Standards would be confusing and that timing was an important factor in deciding which approach to adopt.

10 In September 2019, the IASB Staff recommended the IASB to present the forthcoming ED as a new IFRS Standard rather than as amendments to IAS 1. In addition, they suggested the following approach for updating current requirements in IAS 1 that are not affected by the new IASB proposals:

(a) align the terminology used with the new Conceptual Framework;

(b) minor drafting improvements such as changing 'IFRSs' to 'IFRS Standards';

(c) improve the consistency of the terms used; and

(d) other consequential changes related to the new IASB proposals.

11 In September 2019, the IASB Staff also explained its current approach to drafting the ED:

(a) present a new IFRS Standard that includes both the new IASB proposals as well as the existing presentation and disclosure requirements of IAS 1;

(b) move from IAS 1 to IAS 8 the requirements dealing with the definition of material, fair presentation and compliance with IFRS Standards, going concern and the accrual basis of accounting;

(c) move from IAS 1 to IFRS 7 *Financial Instruments: Disclosures* paragraphs relating to disclosures about puttable financial instruments classified as equity to IFRS 7;

(d) draft the proposed changes to the statement of cash flows as amendments to IAS 7 *Statement of Cash Flows*;

(e) draft the proposals related to earnings per share as amendments to IAS 33 *Earnings per Share*; and

(f) propose a definition of integral and non-integral associates and joint ventures (including the guidance to help entities apply the definition) as an amendment to IFRS 12 *Disclosure of Interests in Other Entities*.

12 As a result of this approach, IAS 1 would be withdrawn.

13 After discussing this issue, the IASB tentatively decided to present the exposure draft as a [draft] new IFRS Standard rather than as amendments to IAS 1.

Sweep issues from initial drafting and early consultations

14 As the IASB Staff started to consider the feedback received during early consultations on the IASB's tentative decisions and how it should structure the new

requirements, the IASB Staff decided to discuss a number of specific issues that have been included in Appendix 1 of this agenda paper.

EFRAG Secretariat analysis of latest developments

How the IASB could structure the new requirements

15 The IASB tentative decision to present the exposure draft as a [draft] new IFRS Standard rather than as amendments to IAS 1 is aligned with the EFRAG Secretariat view expressed in July 2019, that the development of a new IFRS Standard would:

(a) maintain the existing presentation requirements included in IAS 1 in a single standard;

(b) provide a better overview of the improvements to presentation of financial statements; and

(c) give more prominence to the IASB proposals on this project give the IASB the possibility of restructuring and improving in general the current drafting of IAS 1, including taxonomy considerations.

16 Nonetheless, the EFRAG Secretariat considers that the IASB, in addition to the IASB's tentative decisions, needs to find a way to clearly identify all the changes related to updating current requirements in IAS 1 that are not affected by the IASB's project proposals and explain, its approach to the ED, as summarised in paragraphs 10 and 11 above.

Amendments to IAS 34 Interim Financial Reporting and MPMs and subtotals similar to gross profit

17 As described in Appendix 1, the IASB tentatively decided to amend IAS 34 to require entities, in their condensed interim financial statements, to apply the requirements for MPMs (including reconciliations) and to add 'subtotals similar to gross profit' to the list of subtotals that are not MPMs.

18 The IASB approach to MPMs is to require a reconciliation of the MPM to the most directly comparable subtotal or total specified in IFRS Standards, including the effect of tax and non-controlling interests (NCI) separately for each of the differences between the MPM and the IFRS measure. This may include items that are already presented on the face of the financial statements when an entity applies paragraph 85 of IAS 1. To ease application, the IASB tentatively decided to include a list of subtotals and totals that would not be considered MPMs (e.g. gross profit, subtotals similar to gross profit, operating profit before depreciation and amortisation, etc). The EFRAG Secretariat has some concerns for such an approach as:

(a) MPM reconciliations, including tax effect and NCI effect can be costly, particularly when preparing interim financial statements at consolidated level (e.g. tax includes income tax of different subsidiaries and not transactions);

(b) although we acknowledge that the NCI and tax impact on the adjustments are fundamental for calculation of adjusted EPS, we note that adjusted EPS is not a measure which is currently required by IFRS Standards and the IASB tentatively decided not to require their presentation in the primary financial statements. Therefore, entities would be required to provide the effects of tax and NCI when adjusted EPS would not be required under IFRS Standards;

(c) such an approach seems to be a rules based approach which may require future adjustments to encompass different subtotals used in different industries;

(i) It is likely that for most industrial and commercial entities, the number of MPMs presented on the face of the primary financial statements will decrease;

(ii) financial institutions, particularly insurance companies and banks, tend to present several subtotals. If these measures are presented in accordance with paragraph 85 of IAS 1, are considered to be MPMs and not identified in paragraph 81 of IAS 1, the entity would have to provide a reconciliation, including the effects of NCI and tax. Thus, insurance companies and banks may have to provide reconciliations, including the effects of NCI and tax, for many of their subtotals included below operating profit.

19 An alternative approach, which would simplify implementation, would be stating that subtotals presented in the statement(s) of financial performance in accordance with paragraph 85 of IAS 1 are not MPMs. The EFRAG Secretariat will assess the costs of the IASB proposals in its early stage analysis.

Classification of exchange differences and gains and losses on derivatives in the statement(s) of financial performance

20 As described in Appendix 1, The IASB tentatively decided to clarify that an entity is required to classify exchange differences and gains and losses on derivatives and non-derivatives in profit or loss in the same sections of the statement(s) of financial performance as the income and expenses arising from the items that gave rise to the exchange differences and gains and losses on derivatives and non-derivatives.

21 The cost of tracking the exchange differences and gains and losses on derivatives and non-derivatives may outweigh the benefits of classifying the items in the sections of the statement(s) of financial performance. The EFRAG Secretariat will assess the costs of the IASB proposals in its early stage analysis.

Transition requirements and effective date

22 In applying retrospective application requirements to unusual items, there is the risk of the use of hindsight as entities on the effective date will be in a better position to assess whether an item is unusual than it would have been assessed at the time that the event occurred. This may diminish the relevance and reliability of financial statements.

Questions for EFRAG TEG

23 Does EFRAG TEG agrees with the EFRAG Secretariat analysis?

24 Does EFRAG TEG has any other comments on the IASB’s latest tentative decisions?

Appendix 1 - IASB tentative decisions (sweep issues from initial drafting and early consultations)

Topic	IASB discussion and tentative decisions
Classification of expenses relating to investments (IASB meeting June 2019)	The IASB discussed whether expenses related to the investments (e.g. investment management fees) should be included in the investing section. The IASB Staff believed that the users would consider the expenses arising from activities relating to investments in considering the returns from the investments. Thus, including expenses relating to investments in the investing section would provide better information about the performance of the investments. The IASB Staff recommended the inclusion of "incremental expenses" of an investment in the investing section. After discussing this issue, the IASB tentatively decided to include incremental expenses related to an entity's investments in the investing section of the statement(s) of financial performance. Incremental expenses are those expenses that the entity would not have incurred had the investments not been made.
Classification of exchange differences included in profit or loss applying IAS 21 (IASB meeting June 2019)	Some stakeholders expressed concerns about applying the IASB's tentative decisions to the classification of exchange differences as it may be costly for some non-financial entities to track whether exchange differences relate to the entity's main business activities, investing activities or financing activities. The IASB Staff recommended clarifying the application of the tentative IASB decisions to exchange differences in the Application Guidance and including a discussion in the forthcoming ED on the potential costs. After discussing this issue, the IASB tentatively decided to clarify that an entity is required to classify foreign exchange differences included in profit or loss in the same sections of the statement(s) of financial performance as the income and expenses arising from the items that gave rise to the foreign exchange differences (e.g. exchange differences related to financing activities would be classified in the financing section).
Gains and losses on derivatives, in the statement(s) of financial performance (IASB meeting June 2019)	The IASB Staff recommend the IASB supplementary guidance on classification requirements for fair value gains and losses on derivatives because the application of the IASB's tentative decisions could lead to diversity in practice and fair value gains and losses on derivatives used for risk management would not necessarily be classified in the section of the statement(s) of financial performance that is affected by the risk that the entity intends to manage. The IASB Staff considered the pros and cons of two approaches: (i) reflecting risk management for designated derivatives, with classification in the investing section in other cases or (ii) reflecting risk management for all derivatives, with classification in the investing section in other cases. After discussing the issue, the IASB tentatively decided to require the following:

<table>
<tr><th>Topic</th><th>IASB discussion and tentative decisions</th></tr>
<tr><td></td><td>
<table>
<tr><th>Financial Instruments</th><th>Gains or losses on derivatives</th><th>Gains or losses on non-derivative financial instruments</th></tr>
<tr><td>Designated as hedging instruments in accordance with IAS 39 and IFRS 9</td><td colspan="2">In the operating section if the instrument is used to manage risks relating to the entity’s main business activities; and in the financing section if the instrument is used to manage risks relating to the entity’s financing activities (except when doing so would require the grossing up of gains and losses).

In the investing section in all other cases.</td></tr>
<tr><td>Not designated as a hedging instruments in accordance with IAS 39 and IFRS 9</td><td>Adopt the same classification as set out above, except when such a classification would involve undue cost or effort. In such cases, classify gains and losses on the derivative in the investing section.</td><td>Classification in accordance with the IASB’s definitions of the sections.</td></tr>
</table>
</td></tr>
<tr><td>Determining the income tax effects relating to MPMs

(IASB meeting June 2019)</td><td>The IASB discussed whether it should provide guidance on how to determine the income tax effect of the difference between MPMs and the most directly comparable IFRS subtotal and whether to require disclosure of the method used in to determine the income tax effect.

After discussing this issue, the IASB tentatively decided to specify that the income tax effect of items reconciling the MPM to the most directly comparable total or subtotal defined by IFRS Standards should be determined based on a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction concerned; or by another method that achieves a more appropriate allocation in the circumstances..

The IASB tentatively decided to require an entity to disclose how, in its particular circumstances, the income tax effect of MPM adjustments has been determined.</td></tr>
<tr><td>Differences between MPMs and segment measures of profit or loss

(IASB meeting June 2019)</td><td>The IASB discussed the usefulness of disclosures on the differences between MPMs and the measures of profit and losses for the reportable segments. As IFRS 8 and IASB’s tentative decisions on MPMs already required reconciliations with IFRS-defined subtotals, the IASB Staff considered that such reconciliations should sufficient and any additional disclosures were likely to be boiler plate.

After discussing this issue, the IASB tentatively decided not to require an entity to disclose how and why a MPM differs from the total of the measures of profit or loss for its reportable segments. (This decision reverses a previous IASB decision)</td></tr>
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Topic	IASB discussion and tentative decisions
Amendments to IAS 34 Interim Financial Reporting (IASB meeting July 2019)	In July 2019 the IASB considered possible amendments to IAS 34 *Interim Financial Reporting* to reflect the IASB's tentative decisions in the PFS project, particularly when considering that according to IAS 34 subtotals in condensed interim financial statements need to be the same as in the last annual financial statements. This would mean that subtotals would only be required in condensed interim financial statements after they have been included in the first annual financial statements. After considering this issue, the IASB tentatively decided to amend IAS 34 to require entities, in their condensed interim financial statements, to: a. apply the requirements for MPMs; b. apply, in the first year of application only, the amended requirements for subtotals in the statement(s) of financial performance. That is, entities will be required to present the new subtotals in their condensed interim financial statements during the first year of application of the new requirements.
MPMs and subtotals similar to gross profit (IASB meeting July 2019)	In July 2019, the IASB discussed whether subtotals similar to gross profits (e.g. net interest income or net rent income) that meet the definition of MPMs should be exempt from the disclosure requirements for MPMs. After considering different approaches, the IASB tentatively decided to: a. add 'subtotals similar to gross profit' to the list of subtotals that are not MPMs; b. describe such subtotals as 'representing the difference between (a type of) revenue and directly related expenses incurred in generating that revenue'; and c. provide a non-exhaustive list of examples of subtotals 'similar to gross profit'—such as net interest income—and subtotals that are not considered 'similar to gross profit'.
Classification of interest and dividends in the statement of cash flows (IASB meeting July 2019)	In a previous meeting, one IASB member suggested an approach which would require both financial and non-financial entities to classify dividend received, interest paid and interest received in operating cash flows and dividends paid in financing cash flows. The IASB Staff considered both pros and cons of such an approach but ultimately recommend against it because the amendment would be a fundamental change to IAS 7 which could have unintended consequences. The IASB tentatively decided to reaffirm its tentative decisions regarding the classification of interest and dividends in the statement of cash flows.
MPMs and adjusted earnings per share	In July 2019, discussed whether it should amend IAS 33 to restrict what can be used as the numerator in an adjusted earnings per share (EPS) figure to amounts based on IFRS-defined subtotals or MPMs.

Topic	IASB discussion and tentative decisions
(IASB meeting July 2019)	After considering the IASB, the IASB tentatively decided to amend IAS 33 *Earnings per Share* to restrict the numerator in an adjusted earnings per share calculation to amounts based on defined subtotals or MPMs.
Number of illustrative examples of statement(s) of financial performance that should be included in the ED (IASB meeting September 2019)	In November 2018 the IASB tentatively decided which illustrative examples should accompany the ED, including illustrative examples for a non-financial entity, an investment property company, an insurer, a traditional bank with no material investing activities, a bank engaged with both investing and customer financing activities, a bank-insurer, a manufacturer that conducts investing activities and a manufacturer that provides financing to customers. Having gone through the exercise of preparing these illustrative examples, in September 2019 the IASB Staff suggested that these examples may be excessive and considered by preparers as templates. After considering the issue, the IASB tentatively decided to reduce to a handful the number of examples of the statement(s) of financial performance illustrating the IASB's proposals for subtotals. (This tentative decision supersedes the tentative decision made by the Board at its meeting in November 2018).