

# PRIMARY FINANCIAL STATEMENTS

## Joint EFRAG TEG – USER PANEL MEETING

04 March 2020



European Financial Reporting Advisory Group

This paper has been prepared by the EFRAG Secretariat for discussion at a joint public meeting of EFRAG TEG and EFRAG User Panel. 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 Board 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 Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

# OVERVIEW

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EFRAG KEY TENTATIVE VIEWS

QUESTIONS TO EFRAG USER PANEL

OUTREACH EVENTS

TIMELINE



# EFRAG KEY TENTATIVE VIEWS

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## GENERAL

- On 17 December 2019, the IASB published the ED General Presentation and Disclosure where it includes proposals to improve how information is communicated in the financial statements (please click [here](#))
- In February 2019, EFRAG published its draft comment letter (DCL) where EFRAG expresses its tentative views (please click [here](#))
- In its DCL, EFRAG welcomed the IASB's proposals on improving how information is communicated in the financial statements. This project responds to a strong demand from users of financial statements and respondents to the IASB 2015 *Agenda Consultation* to undertake a project on primary financial statements. EFRAG considered that the IASB's proposals in this ED would properly address this request
- EFRAG also agreed with the IASB's proposal to update current requirements through the issuance of a new IFRS Standard, even if the IASB focused mainly on information about performance in the statement of profit or loss. Such an approach has the benefit of highlighting the importance and impact of the proposed changes.

# EFRAG KEY TENTATIVE VIEWS

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## NEW SUBTOTALS AND CATEGORIES

- EFRAG supports the IASB's proposals to present an operating, investing and financing category in the statement of profit or loss to improve comparability and reduce diversity in practice. However, EFRAG has reservations over some of the proposals in the ED:
  - the newly created categories in the statement of profit or loss are not aligned with the presentation of cash flows in the statement of cash flows, however, they have the similar labelling
  - clear guidance is needed on the notion of 'entity's main business activity' to distinguish between categories in the statement of profit or loss
  - the ED proposals should consider the interaction with existing regulatory frameworks on presentation of financial statements
- EFRAG is also seeking views from constituents on the IASB's approach to consider as part of the financing category the income and expenses that arise from cash and cash equivalents and time value of money on liabilities that do not arise from financing activities

# QUESTIONS TO EFRAG USER PANEL

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## NEW SUBTOTALS AND CATEGORIES

- Do you agree with EFRAG tentative views on the IASB's proposal for the new subtotals and categories (paragraphs 1 to 78 of EFRAG DCL)?
- Do you consider income and expenses from cash and cash equivalents (i.e. short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value) as part of the entity's financing (paragraph 54 of DCL) or investing activities (paragraph 55 of DCL)? Please explain
- Do you consider income and expenses that reflect the effect of the time value of money on liabilities that do not arise from financing activities (as in paragraph B47 of the ED) as part of the entity's financing or operating activities (paragraph 76 of EFRAG DCL)? Please explain

# EFRAG KEY TENTATIVE VIEWS

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## INTEGRAL AND NON-INTEGRAL ASSOCIATES AND JVS

- EFRAG considers that separate presentation of integral and non-integral associates and joint ventures will result in relevant information for users of financial statements and enhance comparability
- EFRAG highlights that such presentation will involve significant judgement and needs to be tested in practice

## ROLE OF PFS AND THE NOTES, AGGREGATION AND DISAGGREGATION

- EFRAG welcomes the IASB's efforts to improve the general requirements on disaggregation as a complement to the created additional subtotals in the statement of profit or loss. Nonetheless, EFRAG suggested minor improvements

## ANALYSIS OF OPERATING EXPENSES

- welcomes the IASB's proposals but suggested that the IASB clarifies that paragraph B47 of the ED allows, or even requires, a mixed basis of presentation when an entity presents line items under paragraphs 65 and B15 of the ED

# QUESTIONS TO EFRAG USER PANEL

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## INTEGRAL AND NON-INTEGRAL

- Do you agree with EFRAG tentative views on the IASB's proposals to define and separately present information about integral and non-integral associates and joint-ventures (paragraphs 79 to 92 of EFRAG DCL)?
- Considering that the IASB is proposing the subtotal 'profit before financing and income tax', which includes the result of associates and joint-ventures on a net basis, do you consider that it would be useful to separately present or disclose the income tax related to associates and joint-ventures accounted for under the equity method (paragraph 94 of EFRAG DCL)?

# QUESTIONS TO EFRAG USER PANEL

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## ANALYSIS OF EXPENSES

- Do you agree with EFRAG tentative views on the IASB's proposal for the analysis of expenses by nature or by function (paragraphs 110 to 123 of EFRAG DCL)?
- Do you consider that it is useful to have disclosures by nature in single note when an entity presents its expenses within operating profit or loss by function (i.e. when an entity assesses that presentation by function provides the most useful information)? Please explain (paragraph 121 of EFRAG DCL)
- Do you consider that it is useful to have in the statement of profit or loss:
  - a) a strict presentation either by nature or by function (no mix);
  - b) a general presentation by nature or by function together with limited additional requirements as suggested in the ED by the IASB; or
  - c) a mix presentation basis (no restrictions). Please specify why.(Paragraph 122 of EFRAG DCL)



# EFRAG KEY TENTATIVE VIEWS

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## UNUSUAL INCOME AND EXPENSES

- Welcomes the IASB's proposals but suggested the IASB to refine definition of unusual to include items that presently occur in the business, but only for a limited period of time (e.g. those identified in paragraph B15 of the ED such as restructuring costs)

## MANAGEMENT PERFORMANCE MEASURES

- EFRAG welcomes the IASB's efforts to provide guidance on management performance measures (MPMs) which are often used in practice and additional guidance on non-IFRS measures could bring more transparency and consistency on their use. However, EFRAG highlights a number of challenges in regard to the ED proposals and is seeking views of its constituents on a possible alternative narrower scope. EFRAG also suggests the IASB to further articulate the link between MPMs and IFRS 8 *Operating Segments*
- welcomes the IASB efforts to provide guidance on MPMs, however EFRAG highlights a number of challenges in regard to the IASB's proposed scope and is seeking views from constituents on possible alternative scopes

# QUESTIONS TO EFRAG USER PANEL

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## UNUSUAL INCOME AND EXPENSES

- Do you agree with EFRAG tentative views on the IASB's proposals to define and separately disclose information unusual income and expenses (paragraphs 124 to 140 of EFRAG DCL)?

## MANAGEMENT PERFORMANCE MEASURES

- Do you agree with the scope of the IASB's proposals? If not, which alternative (Alternative 1 or Alternative 2 described in the DCL) would you prefer so that financial statements remain relevant (paragraphs 175 to 184 of EFRAG DCL)?
- Do you agree with EFRAG's suggestion to apply the MPM requirements also to the non-GAAP performance measures, presented within financial statements, that may not satisfy the proposed criteria of MPMs (e.g. adjusted revenues and ratios)? (paragraph 189 of the EFRAG DCL)

# EFRAG KEY TENTATIVE VIEWS

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## EBITDA

- it would have been useful to define or even require EBIT and EBITDA as they are one of the most used performance measures. However, as such measures have not been defined by the IASB, they should be included in the scope of the IASB's proposals regarding MPM disclosures

## STATEMENT OF CASH FLOWS:

- supports the IASB proposals but suggests a separate project on IAS 7 with the objective of having a comprehensive review of the challenges that arise in practice (e.g. financial institutions) and improve consistency with the new content and structure of the statement of profit or loss

## OTHER COMMENTS

- not consider that the IASB's proposals on OCI are a significant improvement as they simply modify the labelling of OCI line items
- EFRAG considers that it could be useful if the IASB could explain how entities with different business activities should prepare their financial statements when considering paragraph IE11 of the Illustrative Examples

# QUESTIONS TO EFRAG USER PANEL

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## REMAINING TOPICS

- Do you agree with EFRAG tentative views on the IASB's proposals on EBITDA and Statement of cash flows (paragraphs 193 to 225 of EFRAG DCL)?
- Do you agree with EFRAG tentative views on entities with different business activities (paragraphs 248 to 249 of EFRAG DCL)?
- Do you have any other comments on EFRAG DCL?

# OUTREACH EVENTS

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During its consultation period, EFRAG will reach out to national standard setters, users of financial statements, preparers, regulators, business associations and other accounting experts to test the practical application of the ED proposals

**Events in partnership with European NSS and in cooperation with the IASB**

EFRAG is already planning a number of outreach events in partnership with National Standard Setters. At this stage, EFRAG received confirmation for approximately five events but we expect more in the near future

**Events with Users in cooperation with Users' Associations and the IASB**

EFRAG is planning a number of outreach events with users of financial statements in different jurisdictions. In particular, EFRAG is currently organising an Outreach Event in Brussels on 19 May 2020

**Field tests in cooperation with NSS and the IASB**

EFRAG is going to conduct field-testing in cooperation with the IASB. The purpose is to identify potential application concerns,, determine whether there is a need for additional guidance and estimate the effort required to apply the proposals

**Presentation of EFRAG initial views in events and to different organisations**

To raise awareness about EFRAG DCL and help constituents to better understand the IASB ED and its impact, the EFRAG Secretariat is planning to present EFRAG's DCL and its ESA in several events and to different organisations

# PROJECT TIMELINE

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| Tasks  | January 2020 | February 2020 | March 2020 | April 2020 | May 2020 | June 2020 |
|--|--------------|---------------|------------|------------|----------|-----------|
| Working on the DCL                                 |              |               |            |            |          |           |
| Outreach Events                                    |              |               |            |            |          |           |
| Field-Tests  |              |               |            |            |          |           |
| Discuss results of outreach events and field-tests |              |               |            |            |          |           |
| Working on the FCL                                 |              |               |            |            |          |           |



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