

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG-CFSS. 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-CFSS. 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.

Primary Financial Statements Cover Note

Objective

- 1 The objective of the session is to:
 - (a) receive a presentation by the IASB staff on the key proposals in the Exposure Draft *General Presentation and Disclosure* (ED);
 - (b) provide an opportunity for EFRAG CFSS members to ask questions to the IASB Staff; and
 - (c) discuss EFRAG TEG-CFSS members' initial views on the proposals in the ED taking into account EFRAG draft comment letter issued in February 2020.
- 2 In addition to this cover note, agenda paper 08-02 ASAF Paper 04 PFS - Overview of ED - TEG-CFSS 20-03-25 has been provided for the session.

Background

- 3 In 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, with a focus on the statement of profit or loss.
- 4 The ultimate objective is to replace IAS 1 *Presentation of Financial Statements* with a new Standard that would comprise new requirements on presentation and disclosures in the financial statements and requirements brought forward from IAS 1 with only limited changes to the wording.
- 5 The IASB expects the proposals in this ED will affect all entities that apply IFRS Standards, including financial institutions. However, the effect of these proposals will vary between entities depending on their current practice.

EFRAG Draft Comment Letter

- 6 In February 2020, EFRAG published its [draft comment letter](#) (DCL) where EFRAG expressed its tentative views. As usual, EFRAG DCL is itself a consultation document that is open for comments until the 19 June 2020.
- 7 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* for the IASB to undertake a project on primary financial statements. EFRAG considered that the IASB's proposals in this ED would properly address this request.
- 8 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 on the presentation of financial statements across different industries.

- 9 EFRAG highlighted that the main challenge of this project is to strike the right balance between satisfying the needs of users by providing a more harmonised structure and content of the statement(s) of financial performance, and allowing management to convey its views of the company's financial performance.
- 10 Finally, EFRAG provided more detailed feedback in the following areas:
 - (a) **New subtotals and categories:** EFRAG supports the IASB's proposals to present an operating, investing and financing category, subject to materiality considerations, as these have the potential benefit of reducing diversity in practice and improving comparability of financial statements. However, EFRAG raised some issues including:
 - (i) the need to have clear guidance on the notion of the 'entity's main business activity', or in the course of the entity's main business activity;
 - (ii) the IASB should consider the interaction of the IASB proposals with existing regulatory frameworks on the presentation of financial statements;
 - (iii) the statement of financial performance and the statement of cash flows are not aligned and will have three different categories with similar labelling (operating, investing and financing). As long as the two statements are not aligned, EFRAG considers that it would be useful to use a different labelling in the two statements to avoid confusion.
 - (b) **Integral and non-integral associates and joint ventures:** The IASB's proposal to separately present integral and non-integral associates and joint ventures will provide useful information to users of financial statements. However, EFRAG highlights that such presentation requirements will involve significant judgements and needs to be tested in practice.
 - (c) **Analysis of operating expenses:** EFRAG supports the IASB's proposal to continue to require entities to present an analysis of expenses using either by-function or by-nature method. However, EFRAG suggests the IASB to make clearer that in specific cases the ED allows, or even requires, a mixed basis of presentation.
 - (d) **Unusual income and expenses:** EFRAG welcomes the IASB's efforts to define unusual income and expenses and to require entities to disclose such items in the notes. However, EFRAG highlights that the definition of unusual items seems to be narrow, as it focuses on whether expenses/income will occur in the future. Instead, EFRAG suggests the IASB to consider not only items that 'will not arise for several future annual reporting periods' (as expressed in the ED) but also 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).
 - (e) **Management performance measures ('MPMs'):** EFRAG agrees that non-IFRS measures are often used in practice and additional guidance could bring more transparency and consistency on their use. EFRAG therefore welcomes the IASB's efforts to provide guidance on MPMs. However, EFRAG highlights a number of challenges in regard to the IASB's proposed scope and invites the IASB to consider a narrower alternative scope.
 - (f) **EBITDA:** EFRAG considers that it would have been useful to define or even require presentation of EBITDA as it is 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.

- (g) **Statement of cash flows:** In general, EFRAG supports the IASB's proposals, however, EFRAG suggests that the IASB initiates a separate project on IAS 7 *Statement of Cash Flows* with the objective of having a comprehensive review of the challenges that arise in practice (e.g. for financial institutions) and improve consistency with the new content and structure of the statement of profit or loss.

Questions for EFRAG TEG-CFSS (from agenda paper 08-02)

General

- 11 Do EFRAG TEG-CFSS members have any questions or initial feedback from your respective jurisdictions on the IASB's proposals for:
- subtotals in the statement of profit or loss;
 - disaggregation;
 - management performance measures; and
 - statement of cash flows?

Subtotals

- 12 Do EFRAG TEG-CFSS members have any questions regarding the IASB's proposals for subtotals and categories in the statement of profit or loss?
- 13 Do EFRAG TEG-CFSS members have any initial comments or feedback on the proposals for subtotals and categories in the statement of profit or loss from your respective jurisdictions?

Disaggregation

- 14 Do EFRAG TEG-CFSS members have any questions regarding the IASB's proposals for disaggregation including the additional guidance, analysis of operating expenses and unusual items?
- 15 Do EFRAG TEG-CFSS members have any initial comments or feedback on the IASB's proposals from your respective jurisdictions relating to proposals on disaggregation?

Management Performance Measures

- 16 Do EFRAG TEG-CFSS members have any questions regarding the IASB's proposals for management performance measures?
- 17 Do EFRAG TEG-CFSS members have any initial comments or feedback on the IASB's proposals for management performance measures from your respective jurisdictions?

Statement of Cash Flows

- 18 Do EFRAG TEG-CFSS members have any questions regarding the IASB's proposals for the statement of cash flows?
- 19 Do EFRAG TEG-CFSS members have any initial comments or feedback on the IASB's proposals for the statement of cash flows from your respective jurisdictions?