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Primary Financial Statements Cover Note

Objective

- 1 The objective of this session is to:
 - (a) briefly discuss the key messages from the feedback received by the IASB on its Exposure Draft *General Presentation and Disclosures* issued in 2019; and
 - (b) discuss the IASB's planning for redeliberations of the project proposals in the light of feedback received.

Agenda Papers

- 2 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 05-02 – IASB document;
 - (b) Agenda paper 05-03 – EFRAG feedback statement – for background only; and
 - (c) Agenda paper 05-04 – Summary of ED and Feedback Received – for background only.

Introduction

- 3 In December 2019, the IASB published the Exposure Draft [General Presentation and Disclosure](#) (the ED) 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 that 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.
- 6 EFRAG's early and extensive involvement enabled us to publish our [Draft Comment Letter](#) (EFRAG DCL) in February 2020, only two months after the publication of the IASB's ED.
- 7 On 2 November 2020, EFRAG published its [final comment letter](#) in response to the IASB's ED which welcomed the IASB's efforts to improve how information is communicated in the financial statements. In the letter, which benefited from the results of the extensive consultation and outreach conducted with European

stakeholders, EFRAG suggested that the IASB further considers a number of its proposals, particularly from a cost and benefit perspective.

- 8 On 30 November 2020 EFRAG published its the feedback statement that summarises the main comments received by EFRAG on its draft comment letter to the IASB ED and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG's final comment letter.
- 9 The feedback statement is available [here](#) and available as agenda paper 05-03.

Key messages from the feedback received by the IASB

- 10 At its December 2020 meeting, the IASB started to discuss the feedback received from 215 comment letters, outreach activities and fieldwork. It also considered a review of academic literature.
- 11 In general, the proposals in the ED have been well-received by respondents, in particular by users of financial statements who have expressed strong agreement with the project objectives and specific proposals.
 - (a) **Categories and subtotals:** most respondents agreed with the proposals to introduce defined subtotals and categories in the statement of profit or loss. Some respondents said additional guidance would be needed to achieve consistent application and comparability, including guidance on the definitions of the categories and the term 'main business activities. There were also concerns on:
 - (i) the classification of income and expenses that arise from foreign exchange differences, derivatives and hedging instruments and cash and cash equivalents;
 - (ii) the proposed labels for the categories in the statement of profit or loss;
 - (iii) defining operating category as a residual category; and
 - (iv) many respondents disagreed with the proposed accounting policy choice for entities that provide financing to customers as a main business activity. Some respondents suggested that, to improve comparability between entities, the accounting policy choice should be replaced with a practical expedient.
 - (b) **Integral and integral associates and joint ventures:** not much support among stakeholders for the proposals. Respondents expressed mixed views, with more disagreeing than agreeing. Most respondents raised conceptual and operational concerns and fieldwork participants also found these proposals difficult to apply. In particular:
 - (i) the IASB proposal to identify separately integral associates and joint ventures;
 - (ii) the proposed definitions of integral and non-integral associates and joint ventures; and
 - (iii) the separate presentation of amounts relating to these investments in the primary financial statements.Nonetheless, most users agreed with the exclusion from operating profit of the share of profit or loss from equity-accounted associates and join ventures.
 - (c) **Disaggregation:** Many respondents agreed with the IASB proposals on the roles of primary financial statements and notes and the principles of aggregation and disaggregation. Some respondents also agreed with the

proposals on minimum line items. However, most respondents that commented on the proposals said further guidance or clarification is needed.

- (d) **Analysis of expenses:** respondents expressed mixed views.
- (i) *proposal to require an entity to select the method of analysis of operating expenses that is most useful:* many respondents agreed (mainly accountancy bodies and standard-setters) and some disagreed (mainly preparers and their representative bodies);
 - (ii) *proposal to prohibit an entity from mixing the methods of analysis of expenses:* many respondents agreed (mainly users, accountancy bodies and standard-setters) and many disagreed (mainly preparers and their representative bodies along with few users); and
 - (iii) *proposal to require an entity to disclose an analysis of expenses by nature in the notes if they present analysis of expenses by function:* many respondents agreed (mainly users, standard-setters and accountancy bodies) and many disagreed (mainly preparers and their representative bodies).
- (e) **Unusual items:** most respondents who commented on this question, including almost all users of financial statements, agreed with the IASB defining unusual items. However, most of these respondents, including some users, did not agree with the IASB's definition of unusual items and made varying suggestions to change it and there was no clear consensus on what an alternative definition should be. In addition, respondents were split evenly on whether or not they agreed with the proposed disclosure in a single note. Finally, the preparers that participated in the fieldwork found they could apply these proposals, but application questions relating to unusual income and expenses.
- (f) **Management Performance Measures (MPMs):** many respondents, including almost all users, agreed with the IASB's proposals to require the disclosure of MPMs in the notes to the financial statements. However, most respondents raised concerns about the definition of MPMs. The two most significant concerns of respondents were:
- (i) requiring disclosure of all MPMs used in 'public communications' is too wide in scope; and
 - (ii) revising the definition to include other measures such as those based on items presented in the statement of financial position or the statement of cash flows.

However, there was mixed feedback on the IASB's proposal to require the disclosure of the tax and non-controlling interest effects of reconciling items.

- (g) **EBITDA:** most respondents, including most users, agreed with the IASB's proposal not to define earnings before interest, tax, depreciation and amortisation (EBITDA) as there is no consensus on what EBITDA represents, its use varies widely, and it is not applicable to some industries. However, some respondents, including some users, considered that EBITDA should be defined because it is a widely used measure that would benefit from a consistent definition.
- (h) **Statement of cash flows:** many respondents did not comment on the proposals. Of those respondents that did comment, many agreed with the proposals. The main concern of those that did not agree, was lack of alignment between the statement of cash flows and the statement of profit or loss, which was also raised as a concern by some fieldwork participants. Finally, some

respondents requested a comprehensive review of IAS 7 Statement of Cash Flows.

12 For more details, please see agenda paper 05.04

IASB's project plan for redeliberations

13 In January 2021, the IASB discussed and agreed on a redeliberation plan. The IASB is now bringing this topic to its ASAF meeting.

14 The IASB considered:

- (a) the factors in approaching redeliberations;
- (b) general approaches to redeliberations;
- (c) approaches to redeliberation by project topics; and
- (d) project timing.

The factors in approaching redeliberations

15 The IASB considered the following four main factors when planning its redeliberations:

- (a) **the project objectives and its focus:** prioritise work on information presented in the statement of profit or loss as the objective of the project is to “improve how information is communicated in the financial statements, with a focus on information included in the statement of profit or loss”.
- (b) **the linkages between project topics:** as there are many linkages between different topics in the project, it may be appropriate to consider some topics together to avoid potentially having to revisit decisions on one topic after the related topic is discussed.
- (c) **Timeliness:** completing the project on timely basis is important as users of financial statements want this projected implemented as soon as possible. Timeliness is also important when deciding on whether to change the scope of the project, even for changes that appear to meet the objective of the project.
- (d) **Efficiency:** it may be appropriate to prioritise work on project areas where the feedback has been relatively straightforward (i.e. directly discuss detailed proposals for topics which have been welcomed) and adopt a staged approach to topics which have received mixed feedback (i.e. first decide on overall direction for a topic and then discuss detailed proposals). Nonetheless, it may also be appropriate to bring a topic for discussion when resources for that topic are available, even if it has lower priority.

General approaches to redeliberations

16 Considering the factor discussed above, the IASB will consider in its discussions:

- (a) the topics that should be prioritised in redeliberations:
 - (i) subtotals and categories in the statement of profit or loss (except for proposals on integral and non-integral associates and joint ventures);
 - (ii) MPMs (except for the scope of MPMs);
 - (iii) disaggregation principles and roles of primary financial statements and the notes; and
 - (iv) amendments to the statement of cash flows.
- (b) the topics that require a staged approach to redeliberations:

- (i) scope of MPMs;
 - (ii) minimum line items;
 - (iii) analysis of operating expenses;
 - (iv) unusual income and expenses; and
 - (v) integral and non-integral associates and joint ventures.
- (c) the topics that can be removed or added to the scope of the project when considering the general approach to redeliberations.

Approaches to redeliberation by project topics

17 The IASB set out the proposed approach for redeliberation on:

- (a) **the categories in the statement of profit or loss:**
- (i) initially the IASB will discuss whether it should define and require entities to present an operating profit subtotal and whether it should define the operating category as a default category for income and expenses not classified elsewhere.
 - (ii) Subsequently, it will discuss other remaining topics such as:
 - the financing category;
 - the investing category;
 - the application of proposals by entities with particular main business activities;
 - the classification of foreign exchange differences and gains and losses from derivatives; and
 - the classification of income and expenses from associates and joint ventures (stage approach).
- (b) **MPMs:**
- (i) initially the IASB will discuss whether it should include information about MPMs in the financial statements and whether it is feasible within this project to broaden the scope of MPMs.
 - (ii) following the initial paper, the IASB will address the remaining topics in follow up papers.
- (c) **disaggregation and other topics:**
- (i) initially the IASB will discuss the roles of the primary statements and notes, and the proposed general guidance for disaggregation;
 - (ii) subsequently the IASB will bring subsequent papers, using a staged approach covering the following topics:
 - minimum line items;
 - analysis of operating expenses;
 - unusual income and expenses;
 - specified and additional subtotals (e.g. EBITDA); and
 - other topics such as other comprehensive income, transition provisions, effective date, etc

Project timing

- 18 The IASB staff will develop estimated timelines once the IASB has completed initial discussions on these topics.

The EFRAG Secretariat Analysis

- 19 The EFRAG Secretariat welcomes the IASB's roadmap for future discussions on Primary Financial Statements. In particular, to continue to focus on the content and structure of the statement of profit or loss, a key element of the success of this project. To prioritise some topics and to use a staged approach where mixed feedback was received and, for those, the IASB may need to consider multiple ways forward, seems to be an efficient way to go forward.

Greatest risks for project timeliness

- 20 The EFRAG Secretariat continues to consider that the main challenge/risk of this project is to
- (a) strike the right balance between providing more comparability and allowing management to convey its views of the company's financial performance; and
 - (b) strike the right balance between the costs for preparers (e.g. update the IT systems to allow disclosures by nature when presenting by function) and benefits for users from having more disaggregation and disclosures.
- 21 The EFRAG Secretariat also acknowledges the difficulties that arise from the fact that the IASB's different proposals are deeply interrelated (e.g. the meaning of 'main business activities' affects many parts of the proposals) and that this raises the risk of endless iteration.

Suggestions for the IASB's redeliberations planning

- 22 The EFRAG considers that a top-down approach for the statement of financial performance (by starting the discussions on the line items and subtotals that are on the top of the statement of financial performance, particularly the notion of main business activities) may help the discussions. Such an approach should also consider:
- (a) the use of MPMs and other non-defined subtotals on the face of the statement of financial performance.
 - (b) knock-on effects on other parts of the proposals (e.g. interaction with the statement of cash flows).
- 23 It may also help to focus initially on the model for general corporates and then assess what needs to be adapted for specific industries such as those that provide financing to customer or invest in the course of their main business activities.
- 24 The EFRAG Secretariat notes that in accordance with the IASB proposals, "the role of the notes is to provide further information necessary for users of financial statements to understand the items included in the primary financial statements and...". Therefore, the EFRAG Secretariat considers that first the IASB needs to conclude its discussion on the content and structure of the statement of profit or loss before starting its discussions on disclosures (even when there is general support for certain disclosures).
- 25 Finally, EFRAG Secretariat acknowledges the IASB's concerns about the scope of this project. Nonetheless, EFRAG would welcome a close interaction between this project and forthcoming project on *Supply Chain Financing Arrangements—Reverse Factoring*.

Questions for EFRAG TEG-CFSS

- 26 Considering the stakeholder feedback received and the redeliberations plan reflecting that feedback, do you have any suggestions for the IASB ? In particular:
- which proposals do you think are the most important for the success of this project and why?
 - which proposals do you see as the greatest risks for project timeliness and how do you suggest we manage those risks?
 - in the light of your responses to the above questions, do you have any suggestions for the IASB's redeliberations planning?