

This paper provides the technical advice from EFRAG FR TEG to the EFRAG FR Board, following EFRAG FR TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG FR Board. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG FR 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 provide EFRAG FRB members an update on:
 - (a) the IASB's tentative decisions on the project *Primary Financial Statements*; and
 - (b) targeted outreach activities on a selection of tentative decisions made by the IASB.

Background of the IASB project

- 2 In December 2019, the IASB published the ED focused on improving on how information is communicated in the financial statements, with a focus on information about performance in the statement of profit or loss. The IASB's comment period ended in September 2020. Early in 2021, the IASB discussed the feedback received and has since made tentative decisions on key aspects of the proposals in response to the feedback received. Some of these tentative decisions result in changes from the proposals in the ED.
- 3 The IASB is now launching an outreach on a targeted selection of its tentative decisions through roundtable discussions. The topics selected for outreach are those where the IASB's tentative decisions change the proposals in the ED.

Background of the EFRAG discussions

- 4 In September 2022, the EFRAG FR TEG-CFSS discussed the targeted outreach activities and members expressed interest in cooperating with EFRAG on the targeted outreach events. Several members confirmed their interest of coordinating their respective outreach activities with EFRAG. Members also suggested more involvement of the users in the events and a clear communication of the importance of this outreach, which might be the last chance for constituents to provide their views on any of the tentative decisions to be included in a future IFRS Accounting Standard.
- 5 In September and October, the EFRAG FR TEG received an update on the latest decisions and discussed the topics and specific questions raised by the IASB staff. In those meetings, members:
 - (a) called for illustrative examples of financial statements for financial institutions in accordance with the IASB's latest tentative decisions;
 - (b) agreed to add a question on classification of hybrid contracts and derivatives to the outreach questions and further extend the question to also target corporate entities;

- (c) highlighted the importance of confirming with participants whether the revised definition of financing activities was clear and moving in the right direction;
- (d) acknowledged the IASB tentative decision on unusual items, however members suggested that EFRAG consults its constituents on this topic during planned targeted outreach, including users of financial statements;
- (e) noted that it would be useful to reflect other items in the 'Cost of Sales' such as write-downs of inventories and the costs of providing services in accordance with IFRS 15 *Revenue from Contracts with Customers*;
- (f) highlighted the importance of presenting within operating profit income and expenses from investments in associates and joint ventures that are linked to insurance contracts and expressed concerns that the subtotal 'operating profit or loss and income and expenses from investments accounted for using the equity method' would not mitigate the concerns as it would include all types of associates and joint ventures, including those not linked to insurance contracts. It was also noted that measuring all associates and joint ventures at fair value would increase earnings volatility. Some EFRAG FR TEG members suggested investigating whether this was a material issue and exploring a narrow scope exception for insurance companies financial statements, while others discussed the possibility of including additional line items in the income statement to help users understand any potential accounting mismatches related to insurance contracts under the scope of IFRS 17 *Insurance Contracts* (i.e. the mismatch from having income and expense on liabilities from insurance contracts in the operating category, while income and expenses from associates and joint ventures that are backing those liabilities presented in the investing category);
- (g) for investments in subsidiaries, associates and joint ventures in the separate financial statements, members questioned the appropriateness of making a distinction in terms of presentation based on whether the equity method is used or not. This is because in the separate financial statements the use of the equity method is a free option. Therefore, it raises the question of why giving a different presentation treatment to one of the options; and
- (h) suggested that when preparing a summary report that summarises the main comments received by EFRAG in its targeted outreach activities, EFRAG includes a direction of travel to the IASB in the executive summary (similar to what was done for EFRAG project *Crypto-assets (liabilities): holder and issuer perspective* (more details click [here](#))).

Questions for EFRAG FR Board

- 6 Do EFRAG FRB members have any general questions about the IASB's tentative decisions on the project?
- 7 Do EFRAG FRB members have any general questions about the targeted outreach activities?
- 8 Do you agree with EFRAG TEG recommendation to have a summary report that includes recommendations to the IASB? The publication of a summary report to the IASB does not involve a public consultation (i.e., a comprehensive due process) as it will not include a formal EFRAG position. Having recommendations to the IASB may be useful for future redeliberations on this project.
- 9 Together with the summary report, do you also want to submit an EFRAG signed letter to the IASB?

Next steps

- 10 The EFRAG Secretariat is planning to start its outreach activities soon EFRAG FRB meeting. In December, the EFRAG Secretariat will bring a summary of the feedback received and ask EFRAG FRB whether it wants to provide the IASB a direction of travel on targeted tentative decisions.

Agenda Papers

- 11 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 08-02 – Overview of EFRAG and IASB activities on PFS
 - (b) Agenda paper 08-03 – EFRAG Materials for Outreach - Corporates
 - (c) Agenda paper 08-04 – EFRAG Materials for Outreach – Financial Institutions
 - (d) Agenda paper 08-05 – IASB Outreach Information - Questions
 - (e) Agenda paper 08-06 – IASB Outreach Information - Appendix
 - (f) Agenda paper 08-07 – IASB Outreach Information - Project as at September 2022