

EFRAG FRB meeting
18 October 2022
Agenda paper 08-02

PRIMARY FINANCIAL STATEMENTS

EFRAG FINANCIAL REPORTING BOARD

18 OCTOBER 2022



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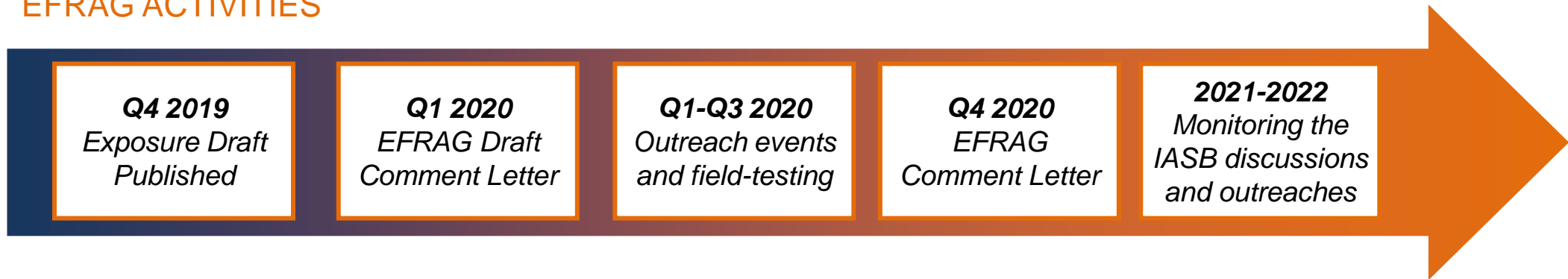
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EFRAG WORK IN EUROPE ON PRIMARY FINANCIAL STATEMENTS

ENSURE A HIGH DEGREE OF TRANSPARENCY AND COMPARABILITY OF FINANCIAL STATEMENTS

- In December 2019, the IASB published the ED *General Presentation and Disclosures*
- EFRAG published its Draft Comment Letter in February 2020 - open for comments until September 2020
- During its consultation period, EFRAG organised several outreach events, including online events with investors, and launched a field-testing of the IASB's proposals
- In November 2020, EFRAG issued its Final Comment Letter and Feedback Statement.

EFRAG ACTIVITIES



More details on [EFRAG Website](#)

PROJECT STATUS AND REDELIBERATIONS TO DATE

IASB REDELIBERATIONS STARTED IN 2021 AND ARE EXPECTED TO CONTINUE UNTIL 2023



The IASB has already discussed in parallel the different parts of the proposals in its ED, including subtotals and categories, Management Performance Measures (MPMs), Disaggregation and others

At future IASB meetings, the IASB will continue its redeliberations on the project proposals. Over the next few months, the IASB plans to discuss a number of topics, including:

- remaining proposals relating to subtotals in the statement of profit or loss and entities with specified main business activities;
- further discussion relating to general principles of disaggregation; and
- remaining proposals relating to management performance measures

OVERVIEW EFRAG OUTREACH ACTIVITIES

TARGETED OUTREACH ACTIVITIES IN COOPERATION WITH IASB AND NSS

- **Objective of the targeted outreach:** assess whether the selected tentative decisions will function as intended and achieve the intended balance of costs and benefits
- The information obtained in the outreach will help the IASB in completing its due process and will be used to support the IASB's decisions on any of the proposals before issuing the final IFRS Accounting Standard
- The outreach will also support EFRAG's potential endorsement advice activities once the final IFRS Accounting Standard is published. For that purpose, the EFRAG Secretariat is planning to organise:
 - Two roundtables with corporate companies, including those that have investing or financing activities as main business activities (24 October and 4 November 2022);
 - One roundtable with financial institutions including insurance companies and conglomerates (2 November 2022);
 - One roundtable with users, preparers and auditors, in the form of a public webinar (15 November 2022), with the objective of discussing whether the IASB has achieved the intended balance of costs and benefits;
 - Discussions with the EFRAG Working Groups, some preparer organisations and ESMA.
 - Participate in events or observe events from the NSS
- The discussions will benefit from the IASB's educational sessions on 14 October and EFRAG's on 18 October.
- EFRAG Secretariat is planning to prepare a summary report in December 2022

CHANGES FROM THE PROPOSALS IN THE EXPOSURE DRAFT

KEY CHANGES IN TERMS OF PRESENTATION

- **Definition of financing activities:** change in the approach for classifying income and expenses within the financing category and aspects of the proposals for entities with specified main business activities
- **Share of results of associates and joint ventures:**
 - Dropped the proposal to distinguish integral and non-integral associates and joint ventures
 - Dropped the proposal to require the presentation of the subtotal 'operating profit and share of profit or loss of integral associates and joint ventures and the related category 'Integral associates and joint ventures'
 - The share of results of associates and joint ventures accounted for under the equity method would be required to be presented in the investing category, even if an entity invests as part of its main business activities

CHANGES FROM THE PROPOSALS IN THE EXPOSURE DRAFT

KEY CHANGES IN TERMS OF PRESENTATION

- **Presentation of operating expenses:** To **withdraw the proposed prohibition on a mixed presentation** of operating expenses and to require an entity to **include in cost of sales the carrying amount of inventories** recognised as an expense during the period when presenting cost of sales
- **Cash and cash equivalents:** Income and expenses from assets that generate a return individually and largely independently of other resources held by an entity are classified in the investing category, including cash and cash equivalents.
- Still, the classification of income and expense from cash and cash equivalents would depend on an entity's main business activities. For example, for entities that invest in financial assets as a main business activity, the income and expenses from cash and cash equivalents would be classified in the operating category
- **Derivatives and hedging instruments:** income and expenses on derivatives are classified in the operating category, rather than in the investing category, under certain conditions such as the exceptions related to when it would involve grossing up gains and losses and when it would involve undue cost or effort
- **FX Classification:** Undue cost or effort relief for FX classification

CHANGES FROM THE PROPOSALS IN THE EXPOSURE DRAFT

CORPORATES

Statement of financial performance - 2019 Exposure Draft

Revenue	x
Changes in inventories of finished goods and WIP	x
Raw materials and consumables used	x
Employee benefits expense	x
Depreciation and amortisation expenses	x
Restructuring costs	x
Operating profit	X
Share of results of integral associates and joint ventures	x
Operating profit and share of profit or loss of integral associates and JVs.	X
Income and expenses from investments	x
Incremental expenses from investments	x
Income and expenses on derivatives and hedging instruments (specific cases)	x
Share of results of non-integral associates and joint ventures	x
Profit before financing and income tax	X
Income and expenses from cash and cash equivalents	x
Income and expenses from financing activities	x
. Interest expenses from debt issued or lease liabilities	
. Debt extinguishment and debt restructuring expenses	x
. Dividends on issued shares classified as liabilities	x
Income and expenses not from financing activities	x
. Net interest expense/income on a net defined benefit liability/asset	x
. Unwinding of the discount on a decommissioning, restoration or similar liability	x
Profit before tax	X
Income tax expense	x
Profit for the year from continuing operations	X
Loss from discontinued operations	x
Profit for the year	X

Operating

Investing

Financing

Statement of financial performance - Redeliberations

Revenue	x
Changes in inventories of finished goods and WIP	x
Raw materials and consumables used	x
Employee benefits expense	x
Depreciation and amortisation expenses	x
<i>Income and expenses on derivatives and hedging instruments (specific cases)</i>	x
Restructuring costs	x
Operating profit	X
Share of results of associates and joint ventures	x
Income and expenses from investments, including cash and cash equivalents	x
Incremental expenses from investments	x
Profit before financing and income tax	X
<i>Income and expenses from liabilities that arise from transactions that involve only the raising of finance</i>	x
. Interest expenses from debt issued	x
. Debt extinguishment and debt restructuring expenses	x
. Dividends on issued shares classified as liabilities	x
<i>Specified income and expenses on other liabilities</i>	
. Interest expenses on lease liabilities	x
. Interest expenses and effect of changes in interest rates (in general)	x
. Net interest expense/income on a net defined benefit liability/asset	x
. Interest expenses to suppliers with extended payment period (goods&services)	x
. Unwinding of the discount on a decommissioning, restoration or similar liability	x
<i>Income and expenses on derivatives and hedging instruments (specific cases)</i>	x
Profit before tax	X
Income tax expense	x
Profit for the year from continuing operations	X
Loss from discontinued operations	x
Profit for the year	X

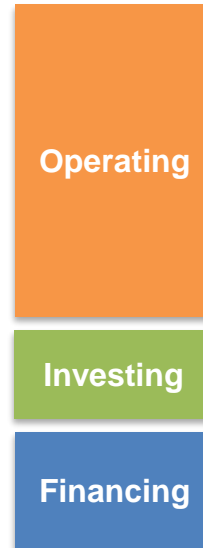
*The EFRAG Secretariat has included a high level of disaggregation just to illustrate the classification of some items. However, the materiality principle and the role of disclosures have to be considered (i.e. disaggregation may appear in the disclosures)

CHANGES FROM THE PROPOSALS IN THE EXPOSURE DRAFT

Statement of financial performance - 2019 Exposure Draft

Revenue from the sale of goods	x
Cost of goods sold	x
Gross profit	X
Other income	x
Selling expenses	x
Research and development expenses	x
General and administrative expenses	x
Impairment losses on trade receivables	
Operating profit	X
Share of profit or loss of integral associates and joint ventures	x
Gains on disposals of integral associates and joint ventures	x
Operating profit and share of profit or loss of integral associates and JVs.	X
Share of profit or loss of non-integral associates and joint ventures	x
Dividend income	x
Profit before financing and income tax	X
Expenses from financing activities	x
Unwinding of discount on provisions	x
Profit before tax	X
Income tax expense	x
Profit for the year from continuing operations	X
Loss for the year from discontinued operations	x
Profit for the year	X

CORPORATES (BY FUNCTION)



Statement of financial performance - Redeliberations

Revenue from the sale of goods	x
Cost of goods sold, <i>including inventory expense</i>	x
Gross profit	X
Other income	x
Selling expenses	x
Research and development expenses	x
General and administrative expenses	x
Impairment losses on trade receivables	
Goodwill impairment <i>(no prohibition of a mixed presentation)</i>	
Operating profit	X
<i>Share of profit or loss of associates and joint ventures</i>	x
Gains on disposals of associates and joint ventures	x
Dividend income	x
Profit before financing and income tax	X
<i>Income and expenses from liabilities that arise from transactions that involve only the raising of finance</i>	x
<i>Specified income and expenses on other liabilities</i>	x
Profit before tax	X
Income tax expense	x
Profit for the year from continuing operations	X
Loss for the year from discontinued operations	x
Profit for the year	X

CHANGES FROM THE PROPOSALS IN THE EXPOSURE DRAFT

BANKS (OPTION ALL IN OP)

Statement of financial performance - 2019 ED

Interest income	x
Interest expense	x
Net interest income	x
Fee and commission income	x
Fee and commission expense	x
Net fee and commission income	x
Net trading income	x
Net investment income, including cash and cash equivalents	x
Credit impairment losses	x
Employee benefits expense	x
Depreciation and amortisation expenses	x
Operating profit	X
Share of results of integral associates and joint ventures	x
Operating profit and share of profit or loss of integral associates and joint ventures	X
Share of results of non-integral associates and joint ventures	x
Income and expenses not from financing activities	x
. Net interest expense/income on a net defined benefit liability/asset	x
. Unwinding of the discount on a decommissioning, restoration or similar liability	x
Profit before tax	X
Income tax expense	x
Profit for the year	X

Operating
(includes investing and financing activities that are part the entity's main business activities)

Investing & financing activities that are not part of main business activities

Statement of financial performance - - Redeliberations

Interest income	x
Interest expense	x
Net interest income	x
Fee and commission income	x
Fee and commission expense	x
Net fee and commission income	x
Net trading income	x
Net investment income, including cash and cash equivalents	x
Credit impairment losses	x
Employee benefits expense	x
Depreciation and amortisation expenses	x
Operating profit	X
Share of profit or loss of associates and joint ventures	x
Specified income and expenses on other liabilities	x
. Net interest expense/income on a net defined benefit liability/asset	x
. Unwinding of the discount on a decommissioning, restoration or similar liability	x
. Interest expenses on lease liabilities	x
Profit before tax	X
Income tax expense	x
Profit for the year	X

***Cash and cash equivalents** presented in the operating if an entity provides financing to customers as a main business activity or if an entity invests in the course of its main business activities in financial assets. Else it is classified in the financing category.

***Cash and cash equivalents** classified in the operating category when an entity invests in financial assets as a main business activity. Else it is classified in the investing category. Accounting option in paragraph 51 of ED under discussion

CHANGES FROM THE PROPOSALS IN THE EXPOSURE DRAFT

INSURANCE

Statement of financial performance - 2019 ED

Insurance revenue	X
Insurance service expenses	X
Insurance service results	X
Interest revenue calculated using the effective interest method	X
Dividends and fair value changes on financial assets	X
Incremental expenses from investments	X
Other investment revenue	X
Credit impairment losses	X
Insurance finance expenses	X
Net financial result	X
Other expenses	X
Operating profit	X
Share of results of integral associates and joint ventures	X
Operating profit and share of profit or loss of integral associates and joint ventures	X
Share of results of non-integral associates and joint ventures	X
Profit before financing and income tax	X
Income and expenses not from financing activities	X
. Net interest expense/income on a net defined benefit liability/asset	X
. Unwinding of the discount on a decommissioning, restoration or similar liability	X
Profit before tax	X
Income tax expense	X
Profit for the year	X

***Cash and cash equivalents** presented in the operating if an entity invests in the course of its main business activities in financial assets. Else it is classified in the financing category.

Operating
(includes investing activities that are part of the entity's main business activities)

Investing

Financing

Statement of financial performance - Redeliberations

Insurance revenue	X
Insurance service expenses	X
Insurance service results	X
Interest revenue calculated using the effective interest method	X
Dividends and fair value changes on financial assets	X
Incremental expenses from investments	X
Other investment revenue, including cash and cash equivalents	X
Credit impairment losses	X
Insurance finance expenses	X
Net financial result	X
Other expenses	X
Operating profit	X
Share of profit or loss of associates and joint ventures	X
Profit before financing and income tax	X
Specified income and expenses on other liabilities	X
. Net interest expense/income on a net defined benefit liability/asset	X
. Unwinding of the discount on a decommissioning, restoration or similar liability	X
. Interest expenses on lease liabilities	X
Profit before tax	X
Income tax expense	X
Profit for the year	X

***Cash and cash equivalents** classified in the operating category when an entity invests in financial assets as a main business activity. Else it is classified in the investing category.

CHANGES FROM THE PROPOSALS IN THE EXPOSURE DRAFT

KEY CHANGES IN TERMS DISCLOSURES

- **Management performance measures:** the IASB tentatively decided to:
 - Add a rebuttable presumption that a subtotal of income and expenses included in public communications outside financial statements represents management's view of an aspect of the entity's financial performance applying the definition and
 - Simplify the method of calculating the tax effect for reconciling items
 - Disclose, for each reconciling item, amount(s) related to each line item in the statement(s) of financial performance
 - Subtotal of income and expense used in the numerator or denominator of a ratio is MPM
- **Disclosure of operating expenses by nature:** see the following slide
- **Unusual income and expenses:** The IASB tentatively decided that it will not proceed with any specific requirements for unusual income and expenses as part of this project

DISCLOSURES OF OPERATING EXPENSES BY NATURE

DISCLOSURE OF OPERATING EXPENSES BY NATURE

Depreciation
Cost of sales
Selling expenses
General and administrative expenses
Research and development expenses

Amortisation
Selling expenses

Employee benefits
Cost of sales
Selling expenses
General and administrative expenses
Research and development expenses

The ED proposed requiring an entity that provides an analysis of its operating expenses using the function of expense method in the statement of profit or loss to disclose in a single note an analysis of total operating expenses using the nature of expense method

The feedback received was mixed and the proposed approach was seen as being costly to apply. To achieve a more balanced outcome between costs for preparers and benefits for users, the IASB tentatively decided:

- to require an entity to disclose the amounts of depreciation, amortisation and employee benefits included in each line item in the statement of profit or loss; and
- to explore a general requirement that would require an entity to disclose, for all operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss

PROJECT STATUS AND REDELIBERATIONS TO DATE

EFRAG SECRETARIAT ANALYSIS

- **Investing category:** The IASB has tentatively decided to add further application guidance to ensure consistent application (including role of ‘main business activities’) and cash and cash equivalents classified in the operating category when an entity invests in financial assets as a main business activity. Else it is classified in the investing category
- **Financing category, including classification of hybrid contracts:** the IASB tentatively decided to change its approach on the classification of items in the financing category and to add new detailed guidance (e.g., hybrid contracts). This may be considered a significant change to the ED, which respondents have not had yet the opportunity to comment.
- **Derivatives, hedging instruments and FX:** the IASB decided to change the classification when it would involve grossing up gains and losses and it would involve undue cost or effort
- **Equity-accounted associates and joint ventures:** The IASB’s tentative decisions do not seem to be fully aligned with EFRAG Comment letter as EFRAG agreed with the distinction between integral and non-integral associates and joint ventures in the disclosures (but called for more application guidance) and highlighted that equity accounted investments may need to be reported in the operating category in particular circumstances (e.g. insurance companies)

Fairly aligned with EFRAG CL – outreach on C&CE

Significant changes to the ED - Outreach

Fairly aligned with EFRAG CL

Significant changes to the ED - Outreach

PROJECT STATUS AND REDELIBERATIONS TO DATE

EFRAG SECRETARIAT ANALYSIS

- **Presentation of operating expenses by nature or by function:** The IASB's tentative decisions are fairly aligned with EFRAG comment letter (e.g. provide more application guidance on the function of expense). The tentative decision to withdraw the strict prohibition of a mixed presentation also reduces the pressure on the distinction between presentation by-function and by-nature
- **Disclosures by nature when presenting by function:** after extensive discussions on this topic, the IASB has tried to reach a compromise on the level of disclosures required
- **Minimum line items:** the IASB has not considered requiring, through minimum line items or subtotals, disaggregation of equity on the face of the statement of financial position
- **Unusual items:** After a comprehensive discussion on the topic, the IASB tentatively decided that it will not proceed with any specific requirements for unusual income and expenses as part of this project
- **MPMs – Scope -** EFRAG called for the IASB to include measures related to the balance sheet and ratios. However, the IASB has tentatively decided to not widen the scope of the MPMs to avoid scope creep and be aligned with the focus of the project.



Fairly aligned with EFRAG CL



Significant changes to the ED - Outreach



Not considered by the IASB



Significant changes to the ED - Outreach



Not considered by the IASB

PROJECT STATUS AND REDELIBERATIONS TO DATE

EFRAG SECRETARIAT ANALYSIS

- **MPMs – Definition** - The IASB addressed some of the concerns related to narrowing the definition of public communication. However, the added a rebuttable presumption that a subtotal of income and expenses included in public communications outside financial statements represents management’s view of an aspect of the entity’s financial performance applying the definition. This is significant change to the ED which has not been tested and respondents did not have the opportunity to comment
- **MPMs - Disclosures:** the IASB tentative decision to require an entity to disclose, for each reconciling item, the amount(s) related to each line item(s) in the statement(s) of financial performance, is a significant change to the ED which has not been tested and respondents did not have the opportunity to comment. The ED itself was less prescriptive and the illustrative example provided by the IASB was just a way of providing the information (not a specific format required by the main standard).
- **EBITDA:** the IASB has considered the issue of excluding impairments from assets that are amortised or depreciated.



Significant changes to the ED - Outreach



Significant changes to the ED - Outreach



Fairly aligned with EFRAG CL

TOPICS FOR OUTREACH

TOPICS SELECTED BY THE IASB FOR OUTREACH

- **Subtotals in the statement of profit or loss** - change in approach for classifying income and expenses within the financing category and aspects of the proposals for entities with specified main business activities;
- **Management performance measures** - rebuttable presumption that a subtotal of income and expenses included in public communications outside financial statements represents management's view of an aspect of the entity's financial performance applying the definition and simplified method of calculating the tax effect for reconciling items;
- **Disclosure of operating expenses by nature:** to require an entity to disclose the amounts of depreciation, amortisation and employee benefits included in each line item in the statement of profit or loss and to explore a general requirement that would require an entity to disclose, for all operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss
- **Unusual income and expenses** - withdraw the proposals for unusual income and expenses

ADDITIONAL QUESTIONS

ADDITIONAL TOPICS SELECTED BY EFRAG FOR OUTREACH

The topics identified below represent a change to the ED although they were not included in the questions of the IASB. The EFRAG Secretariat would like to assess whether the related tentative decisions will function as intended and achieve the intended balance of costs and benefits

- The IASB's new approach on the classification of items in the financing category, including the classification of hybrid contracts with host liabilities and embedded derivatives
- The classification of derivatives and hedging instruments
- The classification of income and expenses from subsidiaries, associates and joint-ventures
- Changes to the scope and requirements on MPMs



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