Primary Financial Statements
EFRAG's comment letter and IASB's tentative decisions

IASB Exposure Draft	EFRAG Comment Letter	IASB Tentative Decision	EFRAG Secretariat Comments
Subtotals and categories			
Subtotals - Operating profit or loss The ED proposed that all entities present a **subtotal for operating profit or loss.**	EFRAG supported the IASB's proposals to present an operating profit subtotal.	The IASB tentatively confirmed that entities would be required to present an **operating profit** subtotal.	The IASB's tentative decisions are aligned with EFRAG comment letter.
Subtotals - Profit or loss before financing and income tax The ED proposed that all entities, except for some specified entities, **present a profit or loss before financing and income tax subtotal in the statement of profit or loss**	EFRAG supported the IASB's proposal to require and define 'profit or loss before financing and income tax' and the 'financing category	The IASB confirmed its proposal to present the subtotal '**profit before financing and income tax'.**	The IASB's tentative decisions are aligned with EFRAG comment letter.

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Categories The ED proposed that an entity shall present the following categories: • Operating • Integral associates and joint ventures • Investing, and • Financing	EFRAG called for the IASB to further consider the presentation of required subtotals when one or more-line items between categories are immaterial (e.g. whether immaterial items from financing and investing activities can be presented within the operating category when immaterial; to avoid a nil amount between categories). EFRAG also suggested that the IASB considers how the proposals would have to be applied in the separate financial statements	The IASB tentatively confirmed to retain the proposal to introduce separate **investing** and **financing** categories in the statement of profit or loss. Nonetheless, there were changes related to the classification related to derivatives and hedging instruments, foreign exchange differences and alignment of the investing categories in the statement of profit or loss and statement of cash flows (see below)	The IASB has not yet provided guidance on the presentation of required subtotals when one or more-line items between categories are immaterial *(as already highlighted by EFRAG Secretariat in the EFRAG TEG-CFSS meeting in September 2021)*
Operating category The ED also proposed that entities **classify in the operating category all income and expenses not classified in the other categories**, such as the investing category or the financing category. Consequently, the operating category includes all income and expenses from an entity's main business activities	EFRAG agreed with the IASB's approach of having combination of a positive definition and a residual element in the definition of operating category. However, it called for more guidance on the notion of 'an entity's main business activities and considered that the IASB should consider improvements to the interaction between the proposal in the ED and IFRS 8, by, for example, including minor or auxiliary business activities (i.e., not main business activities) as a different segment. EFRAG also noted that the IASB needed to further consider the presentation of operating profit or loss when one or more-line items between categories are immaterial (particularly for financial institutions).	The IASB tentatively decided not to develop a direct definition of **operating profit** and that the following income and expenses are excluded from operating category: investing, financing, income tax, and discontinued operations. It also tentatively decided that the **operating category** comprises all income and expenses arising from an entity's operations, including, but not limited to, income and expenses from an entity's main business activities. It also includes volatile and unusual items.	At this stage the IASB has neither provided additional guidance on the notion of 'main business activities' nor improvements to the interaction between the proposal in the ED and IFRS 8, by, for example, including minor or auxiliary business activities (i.e. not main business activities) as a different segment *(as already highlighted by EFRAG Secretariat in the EFRAG TEG-CFSS meeting in September 2021).* The IASB has not yet considered the presentation of operating profit or loss when one or more-line items between categories are immaterial

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			(particularly for financial institutions) *(as already highlighted by EFRAG Secretariat in the EFRAG TEG-CFSS meeting in September 2021).*

Investing category
 	
In the ED, the IASB proposed that the investing category would include returns from investments, that is, income and expenses from assets that generate a return individually and largely independently of other resources held by an entity. The investing category would also include related incremental expenses
	EFRAG supported the presentation of an investing category, subject to materiality considerations
	
	Nonetheless, EFRAG decided to highlight, in line with the feedback received, that the definition of the investing category is not sufficiently clear to ensure consistent application and that clarifications are needed, for example, for:
	
	• what constitutes 'entity's main business activities', including examples of investments that are not part of the entity's main business activities;
	• better explain the interaction of the new requirements related to the categories and subtotals with paragraph 24 of the ED which refers to the notion of materiality;
	• more guidance on incremental expenses; and
	• the classification of specific items such negative interest payments.
		The IASB tentatively decided to retain the proposal for entities to classify in the investing category income and expenses from assets that generate returns individually and largely independently of other resources held by an entity (including the proposed application guidance in the ED; and the label 'investing category' for that category).
		
		The IASB tentatively decided:
		
		• to add further application guidance stating that:
		  ○ income and expenses arising from individual assets and disposal groups held for sale would not be classified in investing category;
		  ○ income and expenses arising from business combinations would not be classified in investing category, and
		  ○ negative returns (e.g. negative interest rates) are classified in the same category as positive returns;
		  ○ negative interest expense on liabilities is classified in the same category as positive interest expense.
			The IASB has tentatively decided to add further application guidance to ensure consistent application. For example, application guidance on the classification of income and expenses that arise from business combinations and negative returns (such as negative interest rates).
			
			However, at this stage the IASB has not provided additional guidance on the notion of 'main business activities' (*as already highlighted by EFRAG Secretariat in the EFRAG TEG-CFSS meeting in September 2021).*
			
			In addition, at this stage the IASB has not provided additional guidance on incremental expenses.

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	• the presentation of items related to business combinations.	• to classify income and expenses from associates and joint ventures in the investing category; • to remove the discussion of the objective from the requirements in the Standard and explain in the Basis for Conclusions the reasons for including specific items in the investing category; and • not to proceed with the proposed use of the defined term 'income and expenses from investments'. • The IASB will discuss other aspects of proposals at a future meeting.	

Financing category
The ED proposed that **the financing category** includes **(a)** income and expenses from cash and cash equivalents; **(b)** income and expenses on liabilities arising from financing activities; and **(c)** interest income and expenses on other liabilities, for example, the unwinding of discounts on pension liabilities and provisions.
The ED also proposed a change to the definition of 'financing activities' in IAS 7 *Statement of Cash Flows*. It proposed that financing activities are those involving the receipt or use of a resource from a provider of finance with the expectation that (a) the
	EFRAG highlighted the challenges of the IASB's proposals to make the distinction between the investing and financing category and give more emphasis to the need of having additional guidance to help implementation.
	EFRAG also considered that there are arguments to support a different classification of income and expenses from cash and cash equivalents and of time value of money that liabilities that do not arise from financing activities. However, EFRAG concurred with the IASB that the proposed classification in the financing category would provide a reasonable compromise.
	On the presentation of income and expenses that reflect the effect of the time
		The IASB tentatively decided
		• not to proceed with a change to the definition of 'financing activities' in IAS 7.
		• change its approach on the classification of items in the financing category. That is, classify in the financing category
		  ○ all income and expenses from liabilities that arise from transactions that involve only raising finance; and
		  ○ specified income and expenses from other liabilities.
		• describe transactions that involve only the raising of finance as transactions that involve:
			On the **financing category**, the IASB tentatively decided not to proceed with a change to the definition of 'financing activities' in IAS 7 *Statement of Cash Flows.* Instead, it tentatively decided to change its approach on the classification of items in the financing category.
			This may be considered a significant change to the ED, which respondents have not had the opportunity to comment.
			Considering this, the EFRAG Secretariat recommends the use of consultative groups and

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resource will be returned to the provider of finance; and (b) the provider of finance will be compensated through the payment of a finance charge that is dependent on both the amount of the credit and its duration.	value of money on liabilities that do not arise from financing activities the income, EFRAG acknowledged that there are arguments for presenting these income and expenses as operating or financing. Considering the above, EFRAG accepted the proposed approach and recommended that the IASB requires a disaggregation in the notes to the financial statements on the main components of the line. Nonetheless, would welcome if the IASB would better explain the reasoning behind the IASB decision to present in the financing category the effect of the time value of money on liabilities that do not arise from financing activities.	○ the receipt by the entity of cash, a reduction in a financial liability or an entity's own equity; ○ the return by the entity of cash or an entity's own equity; • for <u>liabilities that arise from transactions that do not involve only the raising of finance</u>, except some such liabilities specified by the IASB, the IASB tentatively decided to require an entity <u>to classify in the financing category of the statement of profit or loss interest expense and the effect of changes in interest rates</u>, when such amounts are identified applying the requirements of IFRS Accounting Standards. • The IASB specified that this tentative decision does not apply to liabilities that arise from transactions that do not involve only the raising of finance and that are hybrid contracts in the scope of IFRS 9 measured at amortised cost; and include an embedded derivative the economic characteristics and risks of which are closely related to the economic characteristics and risks of the host contract. • In relation to these specified liabilities, the IASB decided to explore an approach that would classify all income and expenses in the financing category of the statement of profit or loss.	targeted consultation to support a decision to finalise a proposal.

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Financing category - Classification of hybrid contracts with host liabilities and embedded derivatives The ED proposed that **the financing category** includes **(a)** income and expenses from cash and cash equivalents; **(b)** income and expenses on liabilities arising from financing activities; and **(c)** interest income and expenses on other liabilities, for example, the unwinding of discounts on pension liabilities and provisions.	On the presentation of income and expenses that reflect the effect of the time value of money on liabilities that do not arise from financing activities the income, EFRAG acknowledged that there are arguments for presenting these income and expenses as operating or financing. Considering the above, EFRAG accepted the proposed approach and recommended that the IASB requires a disaggregation in the notes to the financial statements on the main components of the line. Nonetheless, would welcome if the IASB would better explain the reasoning behind the IASB decision to present in the financing category the effect of the time value of money on liabilities that do not arise from financing activities.	The IASB tentatively decided to provide guidance on 'Hybrid contracts with host liabilities and embedded derivatives' and 'Liabilities arising from transactions that do not involve only the raising of finance' (i.e., interest expense and the effect of changes in interest rates from other liabilities). The IASB tentatively decided to require an entity to classify: • income and expenses relating to separated host liabilities in the same way as income and expenses on other liabilities; • income and expenses relating to separated embedded derivatives in the same way as income and expenses on stand-alone derivatives; and • income and expenses related to contracts that are not separated in the same way as income and expenses on other liabilities. In addition, the IASB tentatively decided to develop disclosure requirements for the situation in which an entity designates an entire hybrid contract as at fair value through profit or loss and as a result does not separate from the host financial liability an embedded derivative that is otherwise required to be separated by IFRS 9 Financial Instruments. The objective of these disclosure requirements would be to give users of financial statements information about when the use of the fair value option changes the classification of income and expenses	In regard to *hybrid contracts with host liabilities and embedded derivatives',* this topic was not considered by the IASB and EFRAG before. EFRAG recalls that the IASB is currently considering the classification of complex financial instruments within its project Financial Instruments with Characteristics of Equity (e.g. bail-in instruments). Thus, both projects should monitor each other's activities and dully test in practice their approach (*as already highlighted by EFRAG Secretariat in the EFRAG TEG-CFSS meeting in September 2021).* This may be considered a significant change to the ED, which respondents have not had the opportunity to comment. Considering this, the EFRAG Secretariat recommends the use of consultative groups and targeted consultation to support a decision to finalise a proposal.

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Classification of derivatives and hedging instruments The ED proposed that that fair value gains or losses on <u>financial instruments used for risk management that are designated or used for risk management but are not designated as hedging instruments</u> should be classified in the category affected by the risk the entity manages, except when doing so would involve grossing up of fair value gains or losses (derivatives designated as hedging instruments); or undue cost or effort (derivatives not designated as hedging instruments). In all other cases (financial instruments that involve grossing up of fair value, that involve undue cost or effort and those that are not used for risk management), are classified in the investing category (default category)	EFRAG highlighted some of the challenges on the classification of fair value gains and losses on derivatives and hedging instruments and suggested that the IASB should consider further the cost/benefit profile of this proposal; and provide more guidance and examples to ease implementation EFRAG expressed concerns about presenting gains and losses on derivatives in the investing category under certain conditions (i.e. exceptions related to grossing up of gains and losses or the undue cost or effort), particularly when referring to financial institutions. Regarding the classification of fair value gains and losses on derivatives, EFRAG considered that it would be useful to have a definition of 'risk management'.	The IASB tentatively decided that the default category for gains and losses from derivatives and hedging instruments is the operating category (rather than the investing), including derivatives not used for risk management (two Board members disagreed with operating being the default category for gains or losses on derivatives not used for risk management). That is, the IASB tentatively decided in cases where classifying fair value gains or losses in the category of the statement of profit or loss affected by the risk the entity manages involves grossing up of fair value gains or losses (derivatives designated as hedging instruments) or undue cost or effort (derivatives not designated as hedging instruments) an entity would classify all fair value gains or losses in the operating category. It also tentatively decided to require an entity to classify fair value gains or losses on derivatives not used for risk management in the operating category of the statement of profit or loss, unless a derivative relates to financing activities and is not used in the course of the entity's main business activities. When the derivative relates to financing activities and is not used in the course of the entity's main business activities, an entity classifies all fair value gains or losses on the derivative in the financing category.	The IASB's tentative decisions are fairly aligned with EFRAG comment letter.

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Classification of foreign exchange differences The ED proposed that an entity shall classify foreign exchange differences included in profit or loss applying IAS 21 in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to the foreign exchange differences	EFRAG highlighted that tracking foreign exchange differences related to the operating, investing, and financing categories can be burdensome and costly and may outweigh the benefits of classifying the items in the sections of the statement(s) of financial performance.	The IASB tentatively decided to add an undue cost or effort as a relief from allocating **foreign exchange differences** to the different categories. In cases that involve undue cost or effort, an entity classifies the foreign exchange differences in the operating category.	The IASB's tentative decisions are aligned with EFRAG comment letter.
Classification of income and expenses that arise from cash and cash equivalents The ED proposed that the financing category includes income and expenses from cash and cash equivalents, except when entity provides financing to customers as a main business activity (operating category)	On the presentation of income and expenses that arise from **cash and cash equivalents**, EFRAG decided, after considering the different views on the topic, to accept the approach proposed in the ED as requiring entities to split cash and cash equivalents between amounts in the different categories could result in operational costs which would outweigh the benefits.	Tentatively decided to require an entity to classify income and expenses from **cash and cash equivalents** in the investing category (rather than the financing category).	Classifying income and expenses from cash and cash equivalents in the investing category would be aligned with the classification in the statement of cash flows. Nonetheless, the EFRAG Secretariat acknowledges the different views on the topic (*as already highlighted by EFRAG Secretariat in September 2021).* The EFRAG Secretariat considers that the IASB has to provide, in its basis for conclusions, a good explanation of its classification reasoning.
Classification of integral and non-integral associates and joint-ventures The ED proposed that an entity classifies its equity-accounted	EFRAG supported the IASB efforts to make a distinction between integral and non-integral associates and joint ventures. However, EFRAG expressed the concerns raised by its constituents on the	The IASB tentatively confirmed to require an entity to classify income and expenses from equity-accounted associates and joint ventures outside the operating category.	The IASB's tentative decisions are not aligned with EFRAG comment letter. However, the EFRAG Secretariat notes that preparers

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associates and joint ventures as either integral (within the category for integral associates and joint ventures') or non-integral to the entity's main business activities (within the investing category).	significant judgement involved in the definition on integral and non-integral associates and joint ventures, which would hinder the comparability. Thus, EFRAG decided to ask the IASB to clarify or revisit the concept of integral, including its adjacent definitions of 'main business activity', 'generate a return individually and largely independently of the other assets of the entity' and 'significant interdependency'. EFRAG also decided to request more guidance and examples to foster a consistent application of the proposals. EFRAG also noted that equity accounted investments (associates and joint ventures) may need to be reported in the operating category in particular circumstances. Finally, EFRAG decided to ask for clarification how the IASB's proposals would apply to subsidiaries, associates and joint ventures in the separate financial statements	The IASB also tentatively decided: • to not proceed with the proposal to require the presentation of the subtotal 'operating profit or loss and income and expenses from integral associates and joint ventures' (i.e. integral associates and joint ventures category) • to not proceed with the proposal to identify and present income and expenses from integral associates and joint ventures separately from income and expenses from non-integral associates and joint ventures. The IASB also tentatively decided to require an entity to include income and expenses from equity-accounted associates and joint ventures in the statement of profit or loss: ○ in the investing category (after operating profit and before the subtotal profit before financing and income taxes) ; and ○ not to specify that such income and expenses should be presented immediately after operating profit.	still may make the distinction between integral and non-integral and present them as part of their management performance measures. Finally, the IASB has not yet provided clarifications on how the IASB's proposals would apply to subsidiaries, associates and joint ventures in the separate financial statements.
Disaggregation			
Principles for aggregation and disaggregation The ED proposed principles and general requirements on the aggregation and disaggregation of	EFRAG expressed concerns that the application of the proposals in paragraphs 27 and 28 of the ED could lead to the presentation and disclosure of immaterial items.	The IASB tentatively decided: • to state the purpose of disaggregation more clearly - items shall be disaggregated if the	The IASB has not yet provided additional guidance on how the principles of (dis)aggregation relate to the use of comparatives

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information - the principles would be applicable to both presentation in the primary financial statements and disclosures in the notes.	EFRAG called for other clarifications as it was, for example, <u>unclear how the principles of (dis)aggregation relate to the use of comparatives</u> (i.e. an entity would (not) need to retain the amount of detail presented in prior year financial statements if it has concluded that another level of aggregation or disaggregation was appropriate). The IASB should also clarify how an entity can avoid that the application of the proposals in paragraphs 27 and 28 of the ED leads to presentation and disclosure of immaterial items obscuring the presentation of relevant information	resulting disaggregated information is material. • to strengthen the application of that principle by emphasising that a single dissimilar (non-shared) characteristic between items would be sufficient to require an entity to disaggregate information about those items if that information were material. • to explore developing guidance for entities on how to use characteristics to identify when to aggregate or disaggregate items • to set out the relationship between the general presentation and disclosure requirements and the principles of aggregation and disaggregation, subject to considering whether 'class' is the best term to use in all situations. • to require an entity to explain how a disclosed class of items is included in line items in the primary financial statements. • to include application guidance summarising characteristics that: ○ if shared, might form the basis for aggregating items that comprise a class that enhances the understandability of information provided in the financial statements. ○ if not shared, might form the basis for disaggregating a single class of items	The IASB has not yet provided addressed the concern that the description noted in paragraph 20(a) of the ED could be too narrow (he defined role of the primary financial statements should focus on the overall position, performance, cash flows and stewardship of the entity, rather than the individual line items. (*as already highlighted by EFRAG Secretariat in September 2021).*

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		into separate classes that provide material information. **Aggregation and disaggregation in the notes** The IASB tentatively decided to provide application guidance that states that, in general, the more diverse the items in a class (that is, the more dissimilar characteristics the items have in addition to the shared characteristics that form the basis for the class) the more likely it would be that disaggregation based on some of those dissimilar characteristics would result in material information. **Aggregation and disaggregation in the primary financial statements** The IASB tentatively decided to provide application guidance that states that, in general, the more diverse the items in a class (that is, the more dissimilar characteristics the items have in addition to the shared characteristics that form the basis for the class) the more likely it would be that disaggregation based on some of those dissimilar characteristics would result in a more understandable overview. The IASB also discussed whether to provide cost relief for the general requirement to provide information about classes. The IASB decided to continue that discussion after it has considered cost relief for specific disclosure requirements at a future IASB meeting.	
Roles of the primary financial statements and the notes	EFRAG expressed concerns that the <u>description noted in paragraph 20(a) of</u>	The IASB confirmed the non-reinstatement of paragraph 29 of IAS 1 in the new IFRS Standard	

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The ED proposed to describe the roles of the primary financial statements and the notes to help companies decide where to present or disclose information.	the ED could be too narrow. Instead, it considered that the defined role of the primary financial statements should focus on the overall position, performance, cash flows and stewardship of the entity, rather than the individual line items.	The IASB also tentatively decided to include a reference to understandability in the description of the role of the primary financial statements.	
Minimum line items The ED proposed some additional minimum line items to be presented in the statement of profit or loss (expenses from financing activities and share of profit or loss from integral and non-integral associates and joint ventures) and in the statement of financial position (goodwill and integral and non-integral associates and joint ventures).	EFRAG stated that in paragraphs 65, B15, and B47 of the ED, the IASB seemed to contradict the no-mix presentation principle by requiring minimum line items to be presented on the face of the statement of profit or loss regardless of this choice, leading to a mixed presentation (e.g. use of the line item 'cost of sales' in by-nature presentation or use of 'impairment of trade receivables' in by-function presentation as stipulated in paragraph IE6 of the Illustrative Examples). In addition, EFRAG assessed that the IASB should consider requiring, through minimum line items or subtotals, disaggregation of equity on the face of the statement of financial position to clearly identify and differentiate different subclasses of equity (e.g. ordinary shares and financial instruments that could be settled by issuing ordinary shares – implementation guidance).	The IASB tentatively decided: • not to revisit the requirements for specified line items brought forward from IAS 1; • not to add a specific requirement to present impairments of non-financial assets; • to proceed with the proposed requirement to present goodwill separately from intangible assets; and • to proceed with the proposed requirement for required line items to be presented in each affected category in the statement of profit or loss. The IASB tentatively decided: • to revise the general principle for the presentation of line items in the primary financial statements set out in paragraph 42 of the ED by removing the term 'relevant' and instead including a reference to an understandable overview of an entity's income and expenses or assets, liabilities and equity; • to require all presentation requirements to apply only when the resulting presentation does not detract from the primary financial	The IASB's withdrawing of the proposal to prohibit a mixed presentation has addressed EFRAG's concern that requiring minimum line items to be presented on the face of the statement of profit or loss regardless of this choice, would lead to a mixed presentation. However, the IASB has not yet considered requiring, through minimum line items or subtotals, disaggregation of equity on the face of the statement of financial position.

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		statement providing an understandable overview; • to add application guidance that indicates that in the operating category it is unlikely that the presentation of items set out in paragraph 65 of the ED would reduce how useful the statement is in providing an understandable overview of the entity's income and expenses; • to remove the term 'minimum' from paragraph 42 of the ED; and • not to specify any required line items to be presented in the <u>financing category</u> in the statement of profit or loss. The IASB will discuss other aspects of the proposals at a future IASB meeting.	
Analysis of operating expenses The ED proposed entities to continue to present an analysis of operating expenses using either the nature of expense method or the function of expense method. However, the method presented should be the one that provides the most useful information to users (factors would have to be considered when deciding which method should be used). An entity that presents an analysis of operating expenses using the function of expense method in the	EFRAG supported the IASB's proposal on the analysis of expenses using either by-function or by-nature method, based on whichever method provides the most useful information to the users. However, EFRAG mentioned that a better description of the by-function and by-nature methods is needed (e.g. lack of guidance on the presentation of cost of goods sold and administrative expenses), particularly if the IASB decides to not allow a mixed presentation basis.	The IASB tentatively decided: • not to develop a definition of the term 'cost of sales' as part of this project. • to explore retaining the proposal to require an entity to analyse and present operating expenses in the statement of profit or loss based on their nature or function. The IASB tentatively decided to explore: • providing limited application guidance on the 'function of expense' method set out in paragraph 70 of the Exposure Draft; • providing application guidance to explain that, <u>as a minimum, cost of sales would</u>	The IASB's tentative decisions are fairly aligned with EFRAG comment letter. In particular, the IASB's decision to provide more application guidance on the function of expense. The EFRAG Secretariat notes that the IASB's decision to withdraw the proposed prohibition on a mixed presentation reduces the pressure on the distinction between presentation by-function and by-nature.

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statement of profit or loss would also be required to disclose in a single note an analysis of its total operating expenses using the nature of expense method. The ED also proposed prohibition on mixing the methods.	EFRAG also referred to some of the concerns received about the application of paragraph B45 of the ED. EFRAG called for the IASB to clarify its primary objective for the presentation of expenses by nature or by function, including the role and scope of a mixed basis of presentation (i.e. clearly state what a mixed presentation basis is and when it is allowed), particularly for insurers and financial conglomerates.	include inventory expense (if applicable), calculated in accordance with IAS 2 *Inventories*; • withdrawing the proposed prohibition on a mixed presentation and instead to provide application guidance in order to improve comparability and help achieve faithful representation; and • retaining the proposal to provide application guidance on how to determine which presentation method an entity would use to provide the most useful information to users of the financial statements (but modifying that guidance as a consequence of withdrawing the proposal to prohibit a mixed presentation).	However, the IASB should clarify when and to which extent entities may use mixed presentation, particularly when considering financial conglomerates and 'unusual items' (e.g. restructurings).
Total operating expenses by nature in a single note In the ED, the IASB proposed that an entity that presents an analysis of operating expenses using the function of expense method in the statement of profit or loss would also be required to disclose in a single note an analysis of its total operating expenses using the nature of expense method.	EFRAG acknowledged the benefits for users of having information by nature and the related costs for preparers. EFRAG also highlighted that both users and preparers were likely to accept a more balanced outcome (e.g. providing a partial presentation by nature of some fundamental operational expenses). Thus, EFRAG recommended that the IASB further investigates the cost/benefit of its proposals to disclose on a by-nature basis in the notes when presenting by-function. Finally, EFRAG requested the IASB to further clarify whether and how the proposed requirement in paragraph 72 of	The IASB tentatively decided not to explore providing an undue cost relief for the disclosure of information about operating expenses by nature when an entity presents in the statement of profit or loss an analysis of expenses by function. The IASB will continue discussing these proposals at a future meeting	The IASB's tentative decisions have not been concluded but seem to be aligned with EFRAG's comment letter (i.e. IASB further investigates the cost/benefit of its proposals to disclose on a by-nature basis in the notes when presenting by-function).

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<tr><th>IASB Exposure Draft</th><th>EFRAG Comment Letter</th><th>IASB Tentative Decision</th><th>EFRAG Secretariat Comments</th></tr>
<tr><td></td><td>the ED is to be applied when entities are required to present on a mixed basis (in accordance with paragraph 65 of the ED and IFRS 17).</td><td></td><td></td></tr>
<tr><td>Definition of unusual items and disclosures

The ED proposed introducing a definition of 'unusual income and expenses'; and proposed requiring all entities to disclose unusual income and expenses in a single note.

The ED also proposed application guidance to help an entity to identify its unusual income and expenses.</td><td>EFRAG welcomed the IASB's efforts to define unusual income and expenses and to require entities to disclose such items.

EFRAG highlighted that the definition of unusual items seems to be rather narrow, as it only focuses on whether expenses/income will occur in the future.

Instead, EFRAG suggested that the IASB considers not only items that will not arise for several future annual reporting periods but also items that occur presently in the business, but only for a limited period of time (e.g. restructuring costs).

EFRAG asked for more guidance to help implementation. For example, EFRAG suggested that the IASB:
tests the terms 'several future annual reporting periods' and 'predictive value', particularly against situations or events such as the covid19 pandemic situation;
better articulates how the disclosure on unusual items would interact with MPMs that are adjusted subtotals of profit or loss;</td><td>The IASB tentatively decided:
to explore how to proceed with a definition of 'unusual income and expenses';
to <u>remove the reference to 'limited predictive value' from the definition</u> of 'unusual income and expenses', and clarify in the Standard that it is a necessary characteristic of unusual income and expenses, not the sole characteristic; and
to <u>develop the application guidance accompanying the definition of 'unusual income and expenses'</u>:
to <u>clarify that the definition means that 'unusual income and expenses' can be dissimilar in type or amount from income and expenses expected in the future</u>;
<u>to help an entity to assess whether similar income or expenses will arise in the future</u>, based on guidance on the assessment of future transactions and other events in other IFRS Accounting Standards; and
to explain that in considering whether income or expenses are similar to expected future income or expenses, <u>an entity would consider characteristics of</u></td><td>Although the IASB has not concluded its discussions and has decided to develop application guidance accompanying the definition of unusual income and expenses, the EFRAG Secretariat assesses that the IASB has not clarified or addressed, at this stage, most of EFRAG's requests (e.g. whether the whole amount should be recognised as unusual or only the incremental part of it when the amount varies significantly from previous periods).

EFRAG secretariat highlights that the definition of unusual items continued to seem to be narrow, as it is focused on whether expenses/income will occur in the future.</td></tr>
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	• clarifies whether its proposals require income or expenses with limited predictive value to be similar both in type and amount, or fulfilling one of these two criteria is sufficient to meet the definition of unusual; • clarifies whether the whole amount should be recognised as unusual or only the incremental part of it when the amount varies significantly from previous periods • clarifies whether entities can present unusual items on the face by specifically referring to 'unusual line items' and 'unusual subtotals' within the categories defined by the IASB or with the use of columns; • takes into account the tendency for preparers to continue to focus on unusual expenses rather than unusual income. Thus, paragraph BC130 of the Basis for Conclusions on neutrality are relevant and could be reflected in the final standard; • reconsiders paragraph 101 of the ED so that the information provided on the note on unusual incomes and expenses adheres to the materiality principle; and • considers linking its proposals with IFRS 8 (i.e. entities with multiple business activities should be allowed	the income and expenses, including the underlying event or transaction that gives rise to income or expenses. The IASB will continue to discuss other aspects of proposals at a future meeting.	

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	or even required to analyse and identify unusual income and expenses on a segment level); • considers requiring disclosures explaining how the definition of unusual items has been applied by the management (i.e. application policy). • takes into account that the translation of term 'unusual' may raise issues in some jurisdictions.		
Management Performance Measures			
Presentation of MPMs The ED proposed requiring an entity to disclose in a single note information about its management performance measures.	EFRAG supported the IASB's efforts to provide guidance on MPMs as non-IFRS measures are often used in practice and additional guidance could bring more transparency and consistency in their use	The IASB tentatively confirmed the proposal to require an entity to include information about MPMs in the financial statements.	The IASB's tentative decisions are aligned with EFRAG comment letter.
Scope of MPMs The ED proposed that MPMs are subtotals of income and expenses that are used in public communications outside financial statements, complement totals or subtotals specified by IFRS Standards and communicate management's view of an aspect of a company's financial performance	EFRAG invited the IASB to not restrict the definition of MPMs to subtotals on the face of the statement of profit or loss and include also other measures, such as indicators of financial position or ratios; and possible MPMs presented in the financial statements but not in other public communications.	The IASB tentatively decided to include in the scope of its requirements for MPMs the numerator or denominator of a ratio, if that numerator or denominator meets the definition of a MPM. The IASB also tentatively decided not to further explore expanding the scope of MPMs to include measures based on: • line items presented in the statements of financial performance; • the cash flow statement,	At this stage, the IASB has tentatively decided to not significantly widen the scope of the MPMs (to avoid scope creep and be aligned with focus of the project that is on the statement of financial performance; considering the MPMs relating to measures based on cash flows without considering the improvements to the statement of cash flows could be according to the IASB premature and prove to be problematic), even

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		• the statement of financial position; and • ratios.	though many respondents called for the IASB to revisit 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. (*as already highlighted by EFRAG Secretariat in September 2021).*
Definition of MPMs The ED proposed a definition of MPMs: MPMs are subtotals of income and expenses that are used in public communications outside financial statements, complement totals or subtotals specified by IFRS Standards and communicate management's view of an aspect of a company's financial performance.	EFRAG invited the IASB to consider making the definition of public communication narrower by limiting it to MPMs presented in public communications released jointly with the annual or interim reports.	The IASB tentatively confirmed to retain • 'providing management's view of an aspect of an entity's financial performance' as the objective of management performance measures; and • 'communicate to users of financial statements management's view of an aspect of an entity's financial performance' in the definition of management performance measures. The IASB tentatively decided to amend the definition of MPMs: • to remove the reference to complementing totals or subtotals specified by IFRS Accounting Standards; and • to state that totals and subtotals specified by IFRS Accounting Standards are not management performance measures. The IASB tentatively decided to establish a rebuttable presumption that a <u>subtotal of income and expenses included in public</u>	The IASB has addressed some of the concerns related to narrowing the definition of public communication. However, the EFRAG secretariat expresses concerns about the IASB tentative decision to: • establish 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 to • provide high-level application guidance on how to assess whether the entity has reasonable and supportable

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		communications outside financial statements represents management's view of an aspect of the entity's financial performance. In addition, the IASB tentatively decided to provide high-level application guidance on how to assess whether the entity has reasonable and supportable information to support the rebuttal. The IASB tentatively decided to narrow the scope of public communications considered for the purposes of applying the definition of MPMs, by excluding oral communications, transcripts and social media posts. The IASB also tentatively decided to add application guidance, but remove the specific requirement about faithful representation.	information to support the rebuttal. This would increase the complexity and amount of disclosures related to this topic. Instead, the EFRAG Secretariat would prefer an improved definition of MPMs, which clearly states which measures are in the scope (i.e. those developed by management and not defined or specified by IFRS) and which measures are typically out of the scope (e.g. performance measures developed and required by regulators).

Disclosure requirements
 	
The ED proposed that an entity would be required to disclose specific information about MPM, including:
• a description of why the MPMs communicates management's view of performance;
• a reconciliation to the most directly comparable total or subtotal specified by IFRS;
• the income tax effect and the effect on NCI for each item disclosed in the reconciliation; and
	In regard to disclosing tax and NCI effect in reconciliation EFRAG questioned whether the resulting information would actually be reliable without entities incurring incremental operational efforts to collect the required information and to prepare reliable financial information. Thus, EFRAG questioned the cost/benefit of the IASB's proposal to disclose the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation required by paragraph 106(b) of the ED
	
	EFRAG suggested to limit it to income tax and NCI effects only if an entity presents
		The IASB tentatively confirmed:
		• to require an entity to disclose why a MPM communicates management's view of performance, subject to some drafting considerations relating to the terms 'why' and 'how', including an explanation of:
		  ○ i) how the MPM is calculated; and
		  ○ ii) how the measure provides useful information about the entity's performance; and
		• to require an entity to disclose a reconciliation between a MPM and the most directly comparable subtotal or total specified in IFRS.
			The EFRAG Secretariat assesses that 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 have not had the opportunity to comment. The ED itself was less prescriptive and the illustrative example provided by the IASB in its ED (which was in line with the IASB tentative decision as it was combined with information on

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• how the entity determined the income tax effect for each item disclosed in the reconciliation.	or discloses an adjusted Earnings Per Share (EPS ratio based on the MPM). EFRAG considered that the IASB had not sufficiently articulated the link between MPMs and IFRS 8 and suggested that the IASB requires an explanation of how MPMs interact with performance measures already presented under IFRS 8	The IASB also tentatively decided: • to provide additional application guidance to support the proposed requirement described in (C51(a)). The guidance would clarify that, where doing so would be necessary for a user of financial statements to understand why a MPM communicates management's view of performance, the explanations described in (C51(a)(i)) and (C51(a)(ii)) would refer to the individual reconciling items. • 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. **Disclosure of tax and NCI** The IASB discussed feedback on the proposal to require an entity to disclose the effects of tax and NCI for individual items in the reconciliation between a MPM and the most directly comparable subtotal or total specified in IFRS. The IASB asked for further information about entities that already disclose the tax effects of such reconciling items; in particular, how they calculate the tax effect. The IASB will discuss other aspects of proposals at a future meeting.	unusual items) was just a way of providing the information (not a specific format that was required in the main standard)
Operating profit or loss before depreciation and amortisation The ED did not propose defining EBITDA. However, the IASB proposed to exempt from the	EFRAG acknowledged that there are mixed views as to whether EBITDA should be defined and agreed with the reasons provided by the IASB to not define EBITDA and other similar measures. As such measures have not	The IASB tentatively decided: • to specify an operating profit or loss before depreciation and amortisation subtotal that	The IASB's tentative decisions are partially aligned with EFRAG comment letter. For example, the IASB has considered that issue of excluding impairments from assets that are amortised

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disclosure requirements for MPM a subtotal calculated as operating profit or loss before depreciation and amortisation. The IASB considered, but rejected, describing the subtotal operating profit or loss before depreciation and amortisation as EBITDA. Paragraphs BC172–BC173 of the Basis for Conclusions explain why the IASB has not proposed requirements relating to EBITDA.	been defined by the IASB, EFRAG reiterated that EBITDA and other similar measures should be included in the scope of the IASB's proposals regarding MPM disclosures (which requires reconciliation with the most directly comparable IFRS specified subtotal). In addition, EFRAG suggested that the IASB clarifies the principle behind the list of measures not considered to be MPMs provided in paragraph 104 of the ED. This is because the description of the measures, included in the list, may be misleading and the reasons to include or exclude measures from the list are unclear, indicating that the list is rules-based. For example, EFRAG noted that users of financial statements challenged the IASB's proposal to exempt from the MPM's disclosure requirements the subtotal 'operating profit or loss before depreciation and amortisation' as EBITDA typically excludes impairments from assets that are amortised or depreciated. Finally, EFRAG highlighted that EBITDA typically excludes impairments from assets that are amortised or depreciated.	excludes impairments of assets within the scope of IAS 36 *Impairment of Assets*; • to do this by amending the specified subtotal 'operating profit or loss before depreciation and amortisation', rather than adding an additional subtotal to the list of specified subtotals; • to label the amended specified subtotal as 'operating profit or loss before depreciation, amortisation, and specified impairments'; • not explicitly to prohibit 'EBITDA' as a label for an 'operating profit or loss before depreciation, amortisation and specified impairments' subtotal, but to explain in the Basis for Conclusions that such a label would rarely be a faithful representation for the subtotal; and • to include no further specific requirements in relation to this subtotal.	or depreciated. However, the IASB has not yet clarified whether EBITDA and other similar measures should be included in the scope of the IASB's proposals regarding MPM disclosures if they do not represent operating profit or loss before depreciation, amortisation, and specified impairments'.
Cashflow statement			

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The ED proposes targeted improvements to eliminate diversity in classification and presentation.	EFRAG supported the IASB's targeted improvements to IAS 7 in the ED but <u>suggested that the IASB has 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</u>.	The IASB tentatively decided to maintain the scope of its work relating to the statement of cash flows in this project.	The IASB has not discussed at this stage 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. There is the possibility that the IASB may consider revising IAS 7 as result of its agenda consultation.
Single starting point require operating profit as the single starting point for the indirect method for reporting cash flows from operating activities	EFRAG supported the IASB's proposal to require entities to use the 'operating profit or loss' as the starting point for the indirect reconciliation of cash flows from operating activities in the statement of cash flows.	The IASB tentatively confirmed the proposal to require an entity to use the operating profit or loss subtotal as the starting point for the indirect method of reporting cash flows from operating activities	The IASB's tentative decisions are aligned with EFRAG comment letter.
Elimination of classification options remove the classification choice for interest and dividend cash flows for most companies.	EFRAG supported the removal of options in IAS 7 for the classification of interest and dividends.	The IASB also tentatively confirmed proposals relating to the classification of interest paid and dividend cash flows for entities other than those for which investing and financing are main business activities. Accordingly, interest and dividends paid would be classified as financing activities, and dividends received would be classified as investing activities.	The IASB's tentative decisions are aligned with EFRAG comment letter.