ROUNDTABLE ON PRIMARY FINANCIAL STATEMENTS

What are the implications of the recent IASB decisions?

ONLINE WEBINAR

SUMMARY REPORT

15 November 2022

EFRAG

IFRS®

Introduction

In order to receive input from stakeholders and to stimulate the discussion on the key tentative changes (due to the IASB's redeliberations) to the IASB® proposals included in the 2019 Exposure Draft *General Presentation and Disclosures* (the 'ED'), EFRAG and the IASB organised a joint outreach event with prepares, users and auditors on 15 November 2022. This report has been prepared for the convenience of European constituents to summarise the event and will be considered by the relevant organisations in their respective due processes on the IASB's proposals.

- **Filipe Alves**, EFRAG Senior Technical Manager
- **Nick Anderson**, IASB Member
- **Nick Barlow**, IASB Technical Staff
- **Carmen Barrasa**, EFRAG TEG Member
- **Jens Berger**, EFRAG FR TEG Vice Chair and Partner at Deloitte
- **Martijn Bos**, Policy Advisor Reporting & Audit at Eumedion and EFRAG User Panel Member
- **Andreas Gattung**, Head of the Accounting Principles Department at Volkswagen Group
- **Nicklas Grip**, Senior Vice President and Head of Regulatory Strategies at Group Finance at Svenska Handelsbanken and EFRAG FIWG member
- **Marisa Mazo Fajardo**, Deputy Head of Research at GVC Gaesco
- **Luca D'Onofrio**, EFFAS Commission on Financial Reporting and AIAF member and EFRAG User Panel member
- **Kathrin Schoene**, EFRAG Project Director
- **Saskia Slomp**, EFRAG CEO
- **Maciej Tuszkiewicz**, Chief Accountant and Finance Manager at Welding Alloys Polska

The program of the event, the speakers' biographies and the material presented during the event can be consulted here.

Saskia Slomp, EFRAG CEO, welcomed participants, introduced the speakers and provided an overview of the agenda.

Nick Anderson, IASB member, explained the timeline of the project and the IASB's key tentative decisions to change the proposals included in the ED. In particular, he highlighted that the feedback collected during the outreach activities would be a key component of the IASB's thinking when finalising the proposals and deciding on the next step of this project. This would include a decision on whether to re-expose or issue an IFRS Accounting Standard. He clarified that the IASB's discussions on the results of the outreach activities would be held in the first half of 2023.

Kathrin Schoene, EFRAG Project Director, presented EFRAG's outreach activities with different stakeholders of financial statements during October and November 2022. The objective of the EFRAG's outreach activities is to help the IASB in completing its due process and assessing whether the selected tentative decisions function as intended and achieve the intended balance of costs and benefits. Based on the comments received during the ED consultation EFRAG would focus on some additional topics during the targeted outreach currently ongoing. Based on the results from the outreach, EFRAG FR TEG and EFRAG FRB will provide recommendations to the IASB on a potential way forward. Such recommendations will be included in a summary report to be published at the end of December.

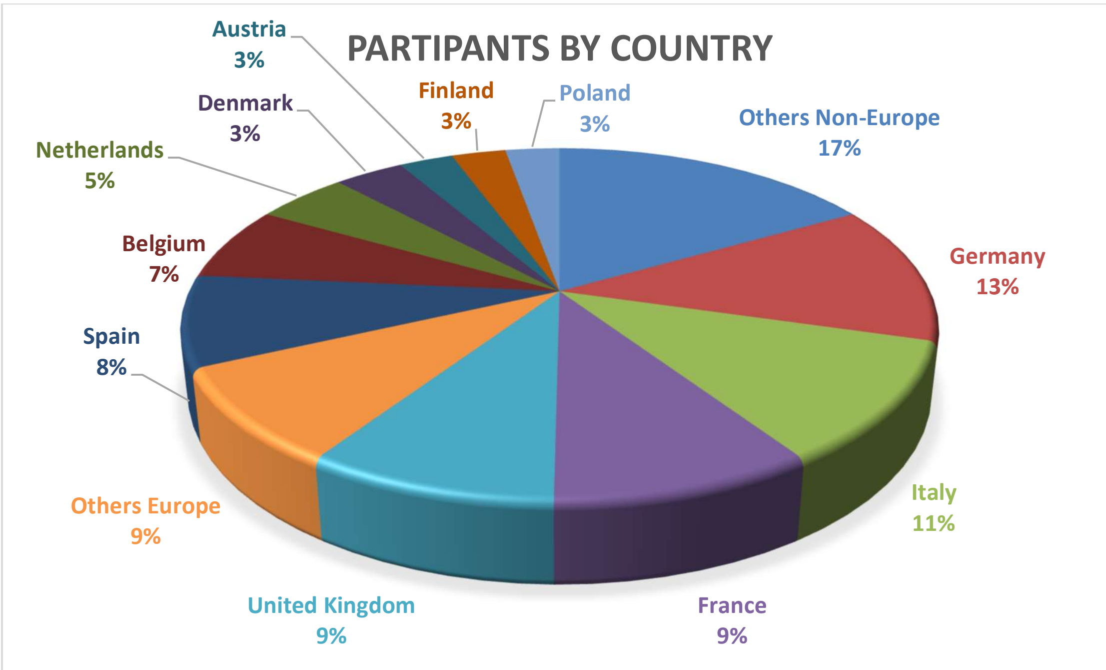
Jens Berger, EFRAG FR TEG Vice-Chair, introduced the panel members.

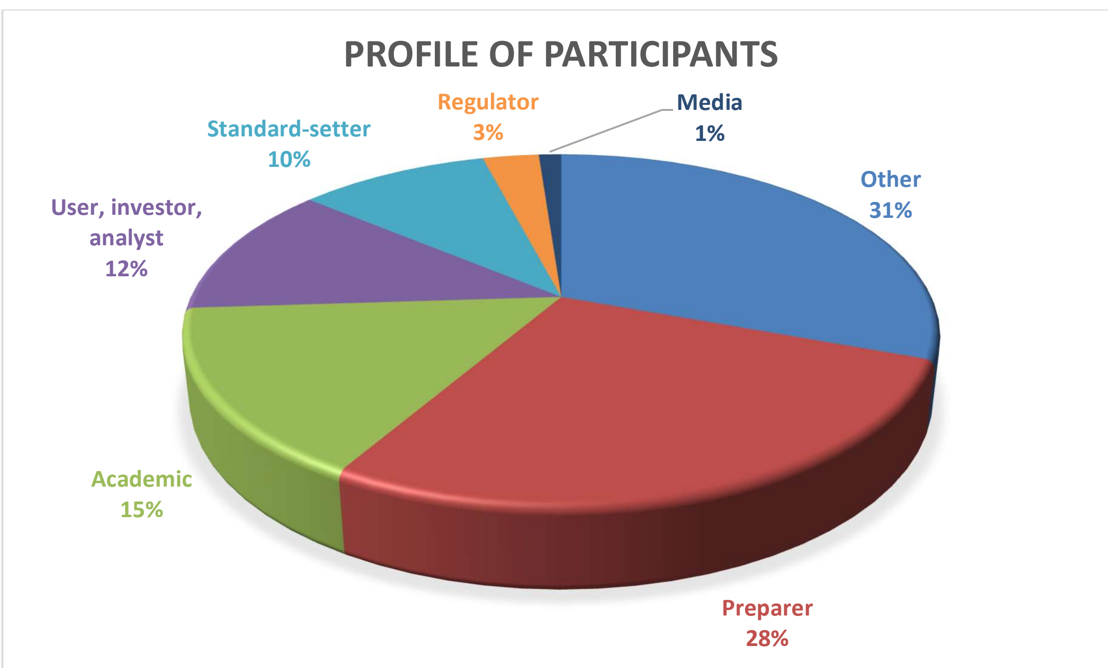
The event focused on 4 topical issues and for each of them the IASB representatives introduced the tentative changes to the proposals included in the ED and the EFRAG representatives presented a summary of the preliminary feedback collected during the previous EFRAG outreach activities. The panellists **Andreas Gattung**, from Volkswagen Group, **Maciej Tuszkiewicz**, from Welding Alloys

Polska, **Nicklas Grip**, from Svenska Handelsbanken and EFRAG FIWG member, **Luca D'Onofrio**, AIAF and EFRAG User Panel member, **Marisa Mazo Fajardo**, from GVC Gaesco, and **Martijn Bos**, from Eumedion and EFRAG User Panel Member participated in the discussion and provided their views.

The audience provided their views on the proposals as illustrated below through polling surveys and asked questions to the speakers (below reported as "Audience question").

The profile of participants is summarised below.





Discussion

Topic 1 – Subtotals and categories in the statement of profit or loss

Nick Barlow, IASB Technical Staff, presented the IASB's key tentative changes to the proposals included in the ED for the presentation of the statement of profit or loss, as outlined in the accompanying slides. The main changes include revisions to the financing category, presenting income and expenses from cash and cash equivalents in the investing category, operating category as default category for fair value gains or losses on derivatives and hedging instruments, and removing of the distinction between integral and non-integral associates and joint ventures (JVs). The latter results in income and expenses from all associates and JVs accounted for using the equity method, being classified as investing activities.

Filipe Alves, EFRAG Senior Technical manager, presented the preliminary feedback from EFRAG outreach activities on subtotals and categories in the statement of profit or loss, as outlined in the accompanying slides.

Jens Berger moderated the panel discussion on *Topic 1 – Subtotals and categories in the statement of profit or loss*.

***New statement of profit or loss' structure** – Will the presentation changes improve the usefulness of information and solve application issues addressed during the consultation on the ED?*

Maciej Tuszkiewicz, Chief Accountant and Finance Manager at Welding Alloys Polska, stated that a main goal for the IASB's project was to increase comparability and felt that the changes improved the proposals in the ED. He considered that main subtotals would be generic and applicable to all organisations – large or small. He also praised the revised proposal for the financing category There was a concern that the IASB examples did not include "other expenses" and this could impact how preparers would implement the requirements. In summary, he believed that these proposed amendments improved the comparability and usefulness of the statement of profit or loss.

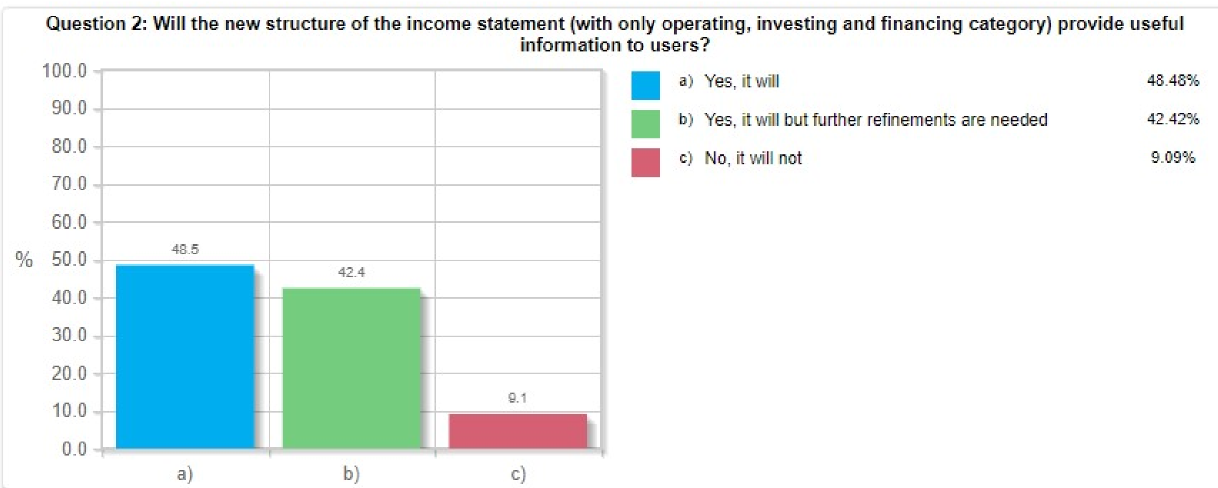
Martijn Bos, Policy Advisor Reporting & Audit at Eumedion and EFRAG User Panel Member, stated that this project would be very beneficial for users and help fundamental analysis. He agreed with the tentative decision to abandon the proposal on integral associates and JVs as an operating profit line item should only include controlled and therefore fully consolidated entities. Otherwise, the entity's performance would be distorted by the net results from associates and JVs, reducing comparability. Further, it would help with company valuations. Multiples used for valuation purposes differ for net results versus those used on other results like operating profit. In summary, he viewed the proposed changes to the ED as an improvement.

Andreas Gattung, Head of the Accounting Principles Department at Volkswagen Group, commented that the amended definition of operating profit was an improvement for small or simple businesses. However, he was concerned that the category definitions would not work for larger diversified companies, such as Volkswagen, with their varied activities over a range of industries including financial services and insurance. He raised concerns that the reporting entity level would have problems in deciding what is operating profit, especially in coordination with the requirements of IFRS 8 – *Operating Segments*. Volkswagen has listed subsidiaries which might report a different operating profit compared to what is presented on group level including segment reporting. He considered that the steering within the group should drive the categorisation at the subsidiary level.

Otherwise, he questioned how a large company with many businesses would deal with the complexity of differing classification of income and expenses on the different group levels. He believed that further guidance was necessary on how entities would define their main business activities, in cases of diversified business activities.

He added that from the perspective of financial institutions, interest and expenses from cash and cash equivalents needed to be included in the operating category. In the current proposal, entities would present such income and expenses in the investing category, unless an entity invests in financial assets as a main business activity. Within the Automotive industry - which provides financing to customers - income and expenses on cash and cash equivalents related to providing financing to customers would need to be included in operating to understand the subtotal. He noted the need for clarity on application of the new IASB's proposal.

Jens Berger commented that the polling survey indicated that the majority of participants believed the proposals were an improvement. However, a significant number also believed further refinements would be required. In this context, he pointed to the remarks of Andreas Gattung for conglomerates.



***Revised definition of financing category** – Is it clearer and easier to apply? Is the resulting information useful for users?*

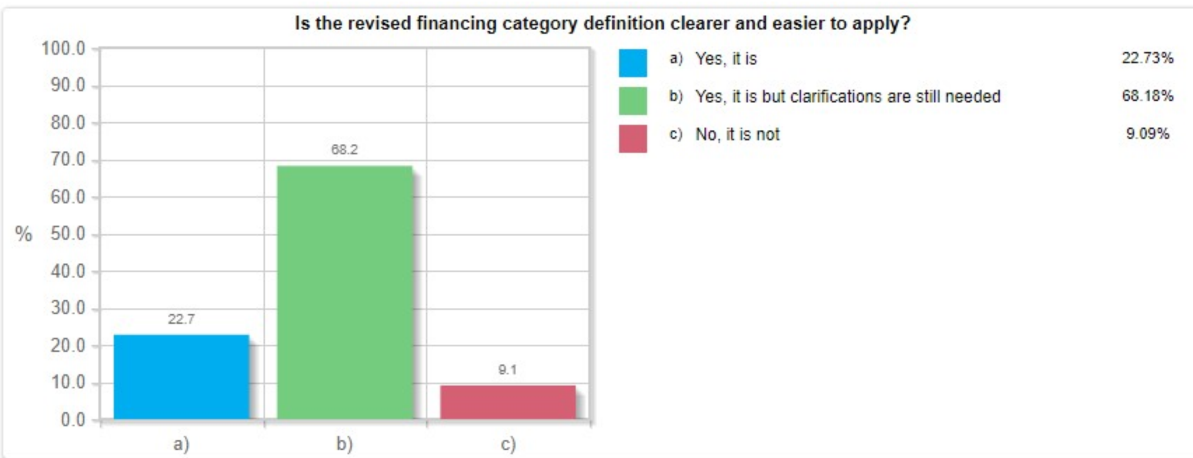
***Income and expenses from cash and cash equivalent** – What about presenting them in the investing category (as default category)?*

Nicklas Grip, Senior Vice President and Head of Regulatory Strategies at Group Finance at Svenska Handelsbanken and EFRAG FIWG member, agreed with Andreas Gattung's comments on the issues created for financial institutions on income (interest) and expenses from cash and cash equivalents. He explained the complex interconnection between the main funding sources and the investing activities in his bank. Nicklas Grip understood that the IASB was considering that financial institutions that do not invest as main business activities should present these income and expenses outside the operating category. He considered that the IASB should maintain the accounting policy choice in paragraph 51 of the ED for entities that provide financing to customers as a main business activity and allow them to present income and expenses from financing to customers and cash and cash equivalents in the operating category. Otherwise, the statement of profit or loss would not be a useful and relevant representation of how financial institutions manage their business.

Marisa Mazo Fajardo, Deputy Head of Research at GVC Gaesco, commented that the revised definition for the financing category was good for most companies apart from the decision to present income and expenses from cash and cash equivalents in the investing category and not in the financing category. She explained that many companies operated on a net-debt basis and so separating income and expenses from cash and cash equivalents and interest from debts may distort the picture. Secondly, the financing category would not work for financial institutions. For a bank, the operating and financial decisions were not a separate function. Therefore, all interest income and expenses should be presented in the operating category. She said that the operating profit structure illustrated in the accompanying slides did not appear to consider financial institutions as it missed mention of cost of credit risk. She suggested that the IASB should consider the possibility of having different structures of the statement of profit or loss for different sectors, especially for financial institutions and conglomerates.

Nick Anderson responded that the example reported in the accompanying slides was a starting point for a discussion and would not be how the statement of profit or loss would work for financial institutions or conglomerates.

Jens Berger introduced the results of the second polling question. The polling survey indicated that a large majority agreed it was an improvement, but more clarification was needed.



***Results from equity accounted associates and joint ventures** – Should they always be presented outside of operating profit?*

From a banking perspective, **Nicklas Grip** stated that this was not an appropriate solution for financial conglomerates. He noted that the users' arguments about the fact that results from associates and JVs are after taxes while operating results are before taxes, is not as relevant for many of the banking activities as for other industries. In many banking activities (e.g., mutual funds) there is not a proportional link between gross income and expenses and net results and so could not be compared to, for example, the manufacturing industry. Nowadays two types of associates and JVs prevail: the first relates to banking system's infrastructure (e.g., payment processing) and the second relates to cooperation with other businesses and related products (e.g., insurance). In both cases, according to the current IASB's proposals, direct income and expenses related to these services would be presented in the operating category, while the net results from associates and JVs would be excluded from the operating category.

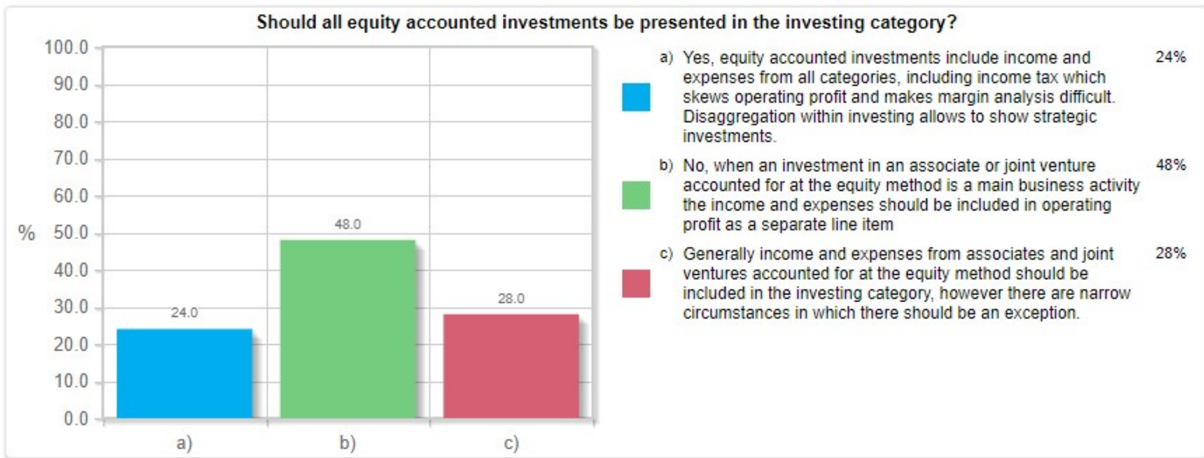
Martijn Bos disagreed with Nicklas Grip's comment as even in the presented examples, such associate was not controlled by the entity and therefore its result should be considered as a result from investments (only if an entity controls another entity, the controlled entity's results should be consolidated). Moreover, he stressed the fact that results from associates and JVs would be after interest and taxes and mixing those results with the operating results would negatively affect both comparability and possibly the entities valuation as a (lower) operating profit multiple may be used to multiply the results from associates that are after interest and tax. He believed that the connection made by the IFRS Accounting Standards between the operating profit and control (e.g., fully consolidated companies) should be maintained also for financial institutions.

Marisa Mazo Fajardo partially agreed with the previous comments. On the one hand, she agreed with Martijn's comment on the fact that the net-taxes results from associates and JVs cannot be mixed with operating results and the possible mixed presentation would negatively affect the company valuation. The valuation of financial institutions, on the other hand, are usually based on equity multiples since, as mentioned, the operating and financing activities were combined. Therefore, she did not believe that it was very relevant to the industry whether the results from associates and JVs are presented within the operating category or not. The important point was to have a clear identification of these results on the face of the financial statements.

Luca D'Onofrio, EFFAS Commission on Financial Reporting and AIAF member and EFRAG User Panel member, commented that the work by the IASB was very important to guarantee more homogeneity and comparability of financial statements. From users' perspective, the dividend received from an associate would not be considered as operating results, even if the associate is a strategic alliance. He added that, in previous discussions, the insurance sector had requested an exemption from the general IASB proposal and want to classify the results from associates and JVs accounted for using the equity method within the operating category. He noted that financial analysts have expressed mixed views regarding this exemption. Some analysts disagree with any such exemptions, whereas other analysts (especially those specialised in insurance sector) would welcome a solution that would allow reporting in line with the insurance companies business model. A proposed solution was to add a specified subtotal in the operating category.

On the IASB proposal in the ED to identify and separately present integral associates and JVs, EFFAS members have expressed mixed views.

Jens Berger introduced the results of the polling question. He stated that there was a 50 percent majority from audience that there should be an option to differentiate such activities, but others felt it should be in the investing category as default. However, some believed that an exception for the insurance industry was needed.



Audience question: *"Why has the integral and non-integral split been abandoned as in certain industries risks are shared and a split would be appropriate, e.g., mining and petrochemical industry?"*

Nick Anderson responded that they had a large response from stakeholders, including users and preparers, that the differentiation would not be helpful. From preparers' perspective, it would require significant judgement on how investments fell into the categories of integral and non-integral. It would be costly and not useful for the users of financial statements.

Audience question: *"Why will the legal view prevail over the operational or managerial? JVs are defined by (subjective) legal considerations, while joint operation criteria might not be met. Risky projects are often JVs to share risks, control and revenue. It will be disregarded in the proposals."*

Martijn Bos responded that primary financial statements completely based on management's views would impair comparability and stressed that comparability was one of the main purposes of IFRS financial statements. In line with this purpose, he believed that the fewer options based on management view, the better for Accounting Standards.

Audience question: *"Isn't the IASB expecting preparers using the MPM to communicate operating profit including results on associates / JVs when relevant?"*

Nick Anderson responded that the IASB had tentatively decided to include a specified subtotal, which would allow operating profit plus the share of profit and loss from equity accounted investments. That subtotal would not be considered a Management Performance Measure (MPM) and so the disclosure requirements, including reconciliation, would not apply. He said that communication about associates and JVs can also be improved using the disclosures required under IFRS 12 *Disclosure of Interests in Other Entities* that are often considered lacking by users.

Audience question: *"Beyond the specific technical solutions you are presenting on the income statement, it seems to me essential to find total consistency with the presentation of balance sheet and cash flow statement. Users construct their comparative analyses and financial ratios from these documents. It would therefore be essential to revise not only the income statement but also the balance sheet and cash flow statement."*

Maciej Tuszkiewicz believed it was crucial to ensure there was alignment between all the financial statements, so they are well structured and coherent. However, he recognised that this would take time.

Martijn Bos commented that this was something to aspire to. However, he believed that there would be differences, giving the example that depreciation is widely considered operating in the income statement and that capex is widely considered investing in the cash flow statement. Instead of full cohesiveness, he instead suggested that the (dis-)aggregations should be similar thereby benefitting the interconnectedness of the financial statements.

Marisa Mazo Fajardo added that there was also the comprehensive income statement, which was very important for financial institutions. The IASB seemed to be silent on the presentation requirements within the statement of other comprehensive income. The statement is important from a regulatory point of view, because all the adjustments that go directly to valuation adjustments add or deduct from equity. This breakdown of the evolution of these adjustments can only be seen through this statement. Banks are not valued on a cashflow basis by the users, the valuation is based on capital generation. Therefore, in the valuation models of the users the excess or deficit from a target regulatory capital is taken into account. She agreed that all four financial statements could be reviewed to ensure they were aligned wherever possible and useful.

Topic 2– Disclosures of operating expenses by nature

Nick Barlow presented the IASB's key tentative changes to the proposals included in the ED for the disclosures of operating expenses by nature, as outlined in the accompanying slides. One of the main changes is the withdrawal of the proposed prohibition on a mixed presentation of operating expenses. In response to feedback that it would be prohibitively costly for some entities to disclose an analysis of all operating expenses by nature when presenting by function and the IASB has 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. In addition, the IASB is exploring whether the last requirement should be extended to impairments and write-downs of inventories or to 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 with an undue cost or effort exemption.

Filipe Alves presented the preliminary feedback from EFRAG outreach activities on disclosures of operating expenses by nature, as outlined in the accompanying slides.

Jens Berger moderated the panel discussion on *Topic 2 – Disclosures of operating expenses by nature*.

Presentation of operating expenses *– When should companies present by nature, by function or use a combination of both?*

Disclosures by nature when presenting by function *– Is the IASB tentative decision a good compromise (amortisation, depreciation, and employee benefits for each line item)?*

Martijn Bos commented that the ED proposals requiring disclosures in a single note, the analysis of total operating expense using the nature method when presenting by function had been well received by the investment community. He described it as providing more insight and facilitating investment analysis. Therefore, he found it disappointing that the IASB had moved away from that direction due to preparation cost considerations. However, he was impressed by the new proposal which he said was like a reconciliation of the nature to the function line items of the statement of profit or loss as it added even more insight on the specified line-items than the original proposal. He stated it was an improvement.

However, the required line-items should be aligned with the IASB's proposed definition of operating profit before depreciation, amortisation and "specified impairments". Therefore, the disclosures on amortisation, depreciation and employee benefits should be complemented with the same specified impairments.

Martijn Bos continued by raising the current issues of inflation, energy costs and sustainability reporting. He proposed that energy costs should be included as a mandatory line item, but this should be developed in close cooperation with the ISSB. He stressed that the project's improvements were urgently needed and that the IASB should focus on how the proposals can be improved, such as specified impairments without the need of another re-exposure or any substantial further delay.

Maciej Tuszkiewicz commented that their local GAAP required disclosure of total expenses by nature in the notes when presenting by function in the face of the financial statements. Therefore, there was already a local requirement similar to the IASB proposals in the ED. However, he felt that it would be difficult to implement when considering it from a group perspective if the current IT system did not offer it. He continued that groups of small entities did not have as much information as the larger companies, and they only collected the information that was necessary and viable. He expressed concern that IT systems would not easily be adapted to generate some of the proposed information without significant instruction and costs. He believed that the full matrix being considered by the IASB was unrealistic and that the previous proposal in the ED of a full disclosure by nature in the notes of financial statements when presenting by function was better. The current proposal was achievable, but it presents some additional implementation work in the IT system. In principle, providing more information on significant operating expenses was beneficial but hesitated whether it was useful to reconcile these with 'by function' line items due to the high cost.

Maciej Tuszkiewicz preferred the ED's proposal to prohibit the mix of the two presentation methods (by function and by nature) as it provided more clarity to the financial statements, but he accepted that was a minority view. Overall, he believed the current proposal could be improved but he agreed that further delays in finalising of the PFS's project should be avoided.

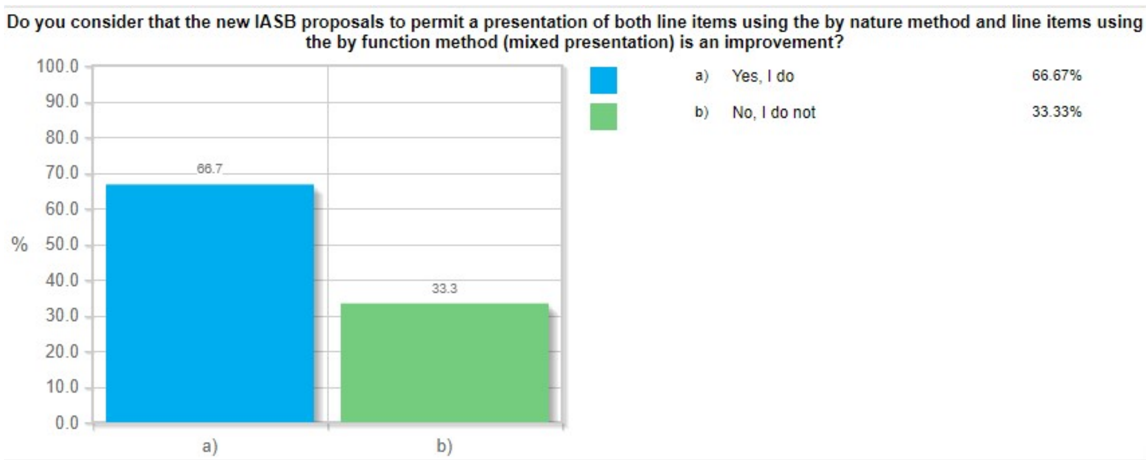
Andreas Gattung commented that they present by function and do not use a mixed presentation approach. He welcomed the IASB decision not to require an entity to disclose in the notes the analysis of all operating expenses by nature when presenting by function as IT system adaptions would entail significant costs. He highlighted difficulties to present the information to be disclosed shortly after an acquisition. System integration needs time and to require the information for interim reporting would be very challenging. His company have the numbers for depreciation, amortisation and human resources ("HR") costs by nature, so he acknowledged how complicated and costly it was for a consolidated entity. He stressed that they could only present primary cost allocation. For example, an IT-Department may be allocated to the administration area; depreciation and HR costs would therefore be shown in the administration costs, even if a major part of the "IT costs" are charged to the Cost of Goods Sold and Costs of sales. He believed that there was therefore a limited benefit to the user and users should not be surprised if such costs (e.g., the depreciation/amortisation and HR costs) allocated to the administration function are higher than administration costs itself.

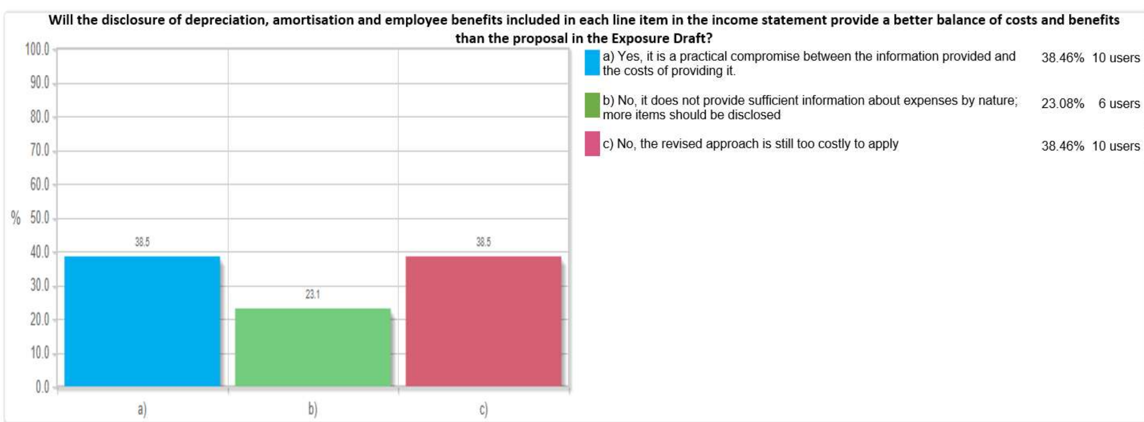
Luca D'Onofrio commented that the by function presentation was analytical information and was generated from the own company's view and without a single definition of 'cost of goods sold' there would be significant differences between entities. This meant that it would not be possible to compare companies reporting by function and it could be misleading. He also believed that it did not provide any insight into the cost structure of a company or the change over time. Further, when there is a free choice for the entity, it meant that comparability was low.

Thus, disaggregation in the by nature presentation was preferred. He also believed that the information being presented by nature offered increased comparability. Therefore, the IASB's proposal in the ED was considered an improvement.

He stated that the breakdown of these three costs (depreciation, amortisation, and employee benefits) would not provide much insight as it was only part of the picture. Finally, the by function disclosure would not link with the non-financial disclosures that is coming in future years (e.g., energy costs). He stated that he supported the improvements and increasing the comparability despite it not going as far as users would like.

Jens Berger introduced the results of the polling questions. He commented that there was strong support for allowing mixed presentation. However, the picture was mixed on providing disclosures by nature for those that present the statement of profit or loss by function with the majority expressing that it was too costly to provide it. Jens Berger noted that there was support for the by nature information still being beneficial. He recognised that it would be a compromise.





***Impairments and write-downs of inventories** – Should they also be disclosed?*

Martijn Bos agreed and stated that this improvement brings to cohesiveness with the proposed IFRS definition of operating profit before depreciation, amortisation and impairments ("OPDAI"), which is bound to be the starting point for constructing most management views on the current EBITDA. He was glad that the IASB considered this proposal to improve this definition to exclude asset write-downs and goodwill as it is fully in line with how financial analysts treat such impairments in their financial analysis.

Andreas Gattung responded that from the automotive industry's perspective he had not understood why write-downs of inventories should be presented on the other operating expenses while they were naturally included in the "cost of goods sold". However, he was happy to provide the information and it did not present a problem.

Maciej Tuszkiewicz agreed that this proposal did not change much the current presentation of such items in the statement of profit or loss.

Audience question: *"I worry that the proposal to permit mixed presentation and require additional disclosures on depreciation/amortisation may be unduly onerous for small/medium companies (as opposed to large corporations). This may in turn impact the quality of information provided thus impairing comparability. Is this being considered?"*

Nick Anderson responded that the proposal permitted mixed presentation and did not impose it so it would not increase costs for an entity. Furthermore, he explained that the IASB tentatively decided to require additional disclosure on depreciation, amortisation and employee benefits because those were already required by IAS 1 – *Presentation of financial statements*. Thus, the only addition was the allocation of those expenses between functions. He also acknowledged that it was a compromise to increase the connectivity between the financial statements and the notes rather than add more work to further delay the project.

Maciej Tuszkiewicz commented that it depends on how the entities currently enter that information in their accounting system. Including additional information regarding the function allocation could increase time, costs and burdens, especially for small entities (for which costs could exceed benefits). He also expressed some concerns whether these requirements only for these three types of operating expenses could significantly increase the quality of the information justifying the related additional costs for the entities.

Audience question: *"Interesting point about energy cost. How would analysts compare two entities of the same industry, one with highly integrated production and transport (hence bearing energy cost as a primary expense), the other one with highly externalized sourcing of products and transport (hence energy costs included in cost of goods purchased and transport service charged by third parties)?"*

Martijn Bos commented that information on energy cost is key both for financial and sustainability information. Users are more and more interested in how an entity will be viable in the future and therefore competitive in the market. Information about the energy mix, for example, in sectors such as aviation and shipping, could drive investors' choices to invest in or engage with entities that are more sustainable than others.

Andreas Gattung replied that he understood the comment from a user's perspective as it gave information on energy costs. However, he raised the problem that energy expenses through external parties would not be presented as energy costs. He added that there was another issue about the energy that was generated. He believed that these issues would impact comparability.

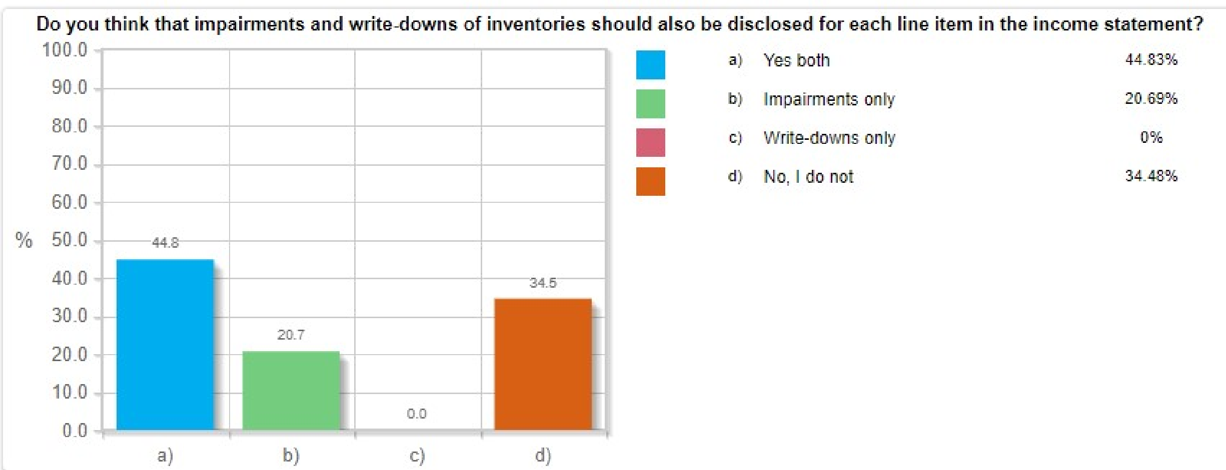
Martijn Bos agreed but entities that are more dependent on external parties tend to have more flexibility to choose another provider with a different energy mix and therefore less dependency.

Andreas Gattung countered that the energy costs would not be transparent as the invoice would be for transport.

Martijn Bos stated that financial analysis will continue to be an effort in which pieces of the puzzle are gathered to complete as much as possible an often-imperfect picture. Investors in Europe will benefit from the Corporate Sustainability Reporting Directive that requires disclosures on energy use up and down the supply chain, in particular Scope 2.

Luca D'Onofrio commented that he believed energy costs were important. He stated that they were interested in the internal and external split of the costs, and it was useful to have as much information as possible to understand the strategy of the company. He added that human resources costs were also interesting.

Jens Berger stated that according to the results of the polling question related to the inclusion of impairments and write-downs of inventories a slight majority of the audience supported the inclusion but also a large minority that did not believe either should be included in the statement of profit or loss.

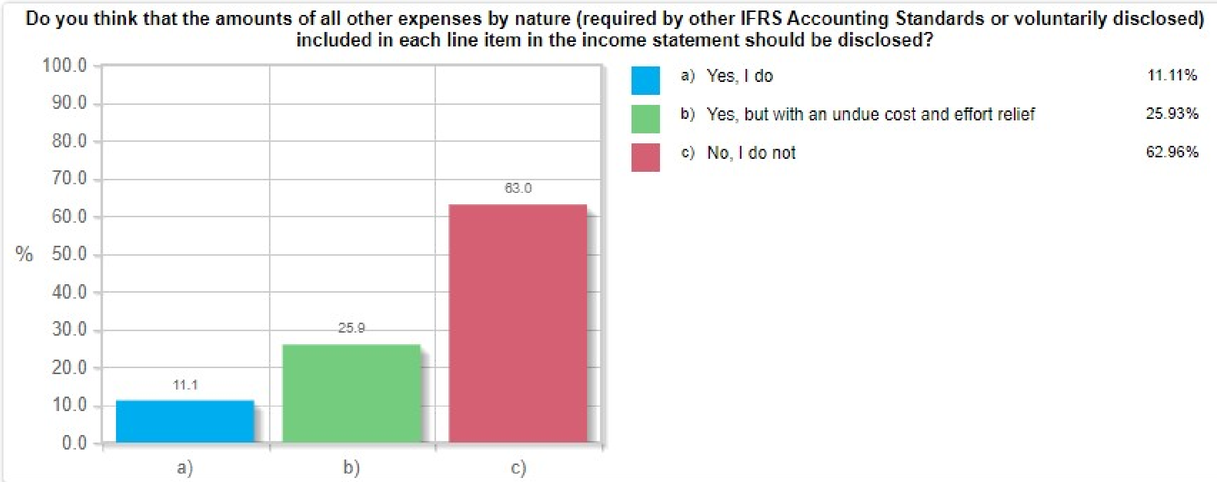


*What about also including **all other operating expenses** disclosed in the notes? Are these disclosures by nature useful and sufficient for users of financial statements?*

Andreas Gattung commented that the disclosures should only be those that are strictly necessary for the user as they would be complex and costly, especially in terms of their reconciliation at group level.

Luca D'Onofrio stated that he was supporting more disaggregation in the notes, as it would provide more information helping the users to understand the cost structure and therefore leading to more comparable information. As a user, he would prefer a presentation by nature or by function; nevertheless, he also agreed that a mixed presentation would be acceptable but, especially in this situation, the quality of the disclosure is critical to allow comparability.

Jens Berger stated that according to the results of the polling question there was a large majority against presenting all other operating expenses by nature.



Nick Anderson clarified that the IASB was just exploring this area in the outreach and no tentative decision had yet been made.

Topic 3 – Management Performance Measures

Nick Barlow presented the IASB's key tentative changes to the proposals included in the ED related to the Management Performance Measures proposal, as outlined in the accompanying slides.

Filipe Alves presented the preliminary feedback from EFRAG outreach activities on Management Performance Measures, as outlined in the accompanying slides.

Jens Berger moderated the panel discussion on *Topic 3 - Management Performance Measures*.

New rebuttable presumption on MPMs - Will it work in practice?

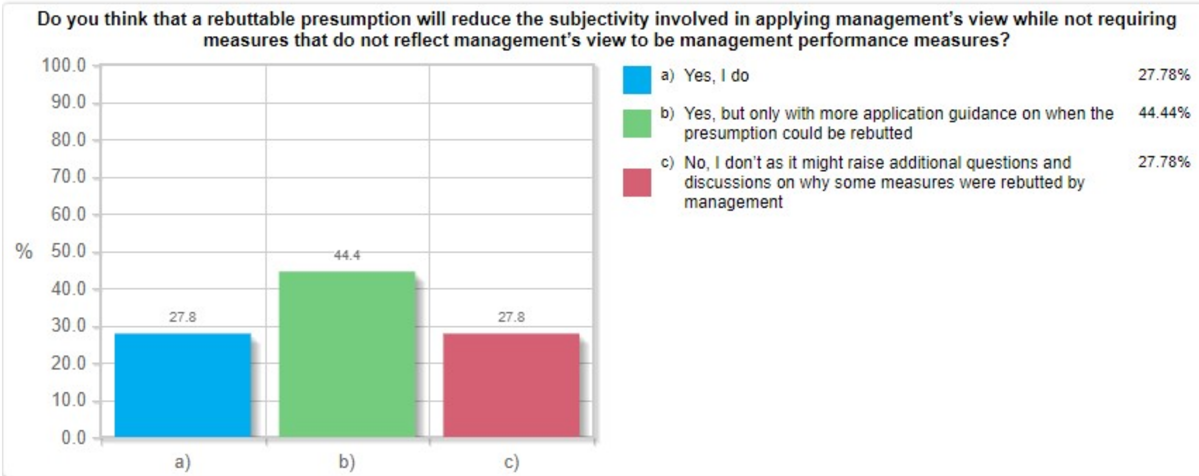
Nicklas Grip expressed relief that there might be the possibility to rebut that a subtotal is an MPMs when it arises not only from the law but also from a regulation. Banks and other regulated entities have extremely extensive extra reporting requirements (e.g., Pillar 3 Disclosure Requirements for banks, Own Risk and Solvency Assessment (ORSA) for insurance or additional specific disclosure required by the stock exchange's regulator) that contain a lot of data that do not necessarily represent management's view of performance.

Marisa Mazo Fajardo agreed and stated that financial institutions have multiple income statements, additional to the one included in the financial statements, and which are presented in accordance with different frameworks, for example: banking associations, central bank and US GAAP if the entity is listed on an American stock exchange. She also highlighted that the label used (MPM) would be misleading because the accounting standards should be used to have comparable information and, consequently, they should not force how the management measures the entity's performance, especially when an entity has a lot of subsidiaries around the world. She suggested to called them "Performance Measure". Finally, she also confirmed that banks have a lot of data/information subject to in-depth reviews.

Andreas Gattung welcomed the new rebuttable presumption, especially for his company's financial subsidiaries which are regulated. He expressed his concern on how narrow the interpretation could become, for example considering when specific subgroups present results on their own. He acknowledged and agreed with the IASB proposal but asked for the IASB to carefully consider the wording because the interpretation could be broader than the original ED (e.g., improving the MPM's definition in term of responsibility because using the word "management" could be too broad as it could be interpreted as if it would include management at subsidiary level).

Martijn Bos agreed with the concerns that had already been expressed by other panellists and that information that was presented for regulatory purposes only should not require reconciliations in the financial statements as it would clutter more meaningful reconciliations. He was not concerned about the new definition of MPM. Further, he highlighted the need to make sure that non-public entities with public debt outstanding are part of the scope.

Jens Berger stated that according to the polling question results there was broad support for the introduction of a rebuttable presumption, but some participants called for more guidance.



Martijn Bos agreed that the oral communication should be excluded; indeed, it was also in the interest of users that not too much is covered by the rebuttable presumption as it could hamper the effective dialogue between investors and reporting entities.

Revised simplified approach to calculating the tax effect for each reconciling item – Would it be a good compromise both in terms of costs and benefits for preparers and users?

Martijn Bos commented that the topic on NCI was a bit overlooked in IFRS. Entities owned as little as 30% are (rightfully) fully consolidated. He considered that investors, even in the context of IFRS 12 *Disclosure of Interests in Other Entities* requirements, were seldom able to know the impact of those partially owned entities on the group's proportional revenue and operating results. Therefore, he welcomed the IASB's proposal because users definitely need this additional information in terms of NCI and tax effect, but he would accept practical solutions to reduce costs for preparers.

Andreas Gattung commented that the issue for him was the quality of the outcome of the project. If operating profit has a meaningful definition, there should be no need for the regular presentation of the MPM but could be limited to specific matters. If there was a specific matter that the users wanted to understand (e.g., restructuring costs or fines on violations), he thought it could be useful to present that issue separately, including the impact on tax and NCI. The tax effect for such one-off impacts could be very different from the group rate (e.g., when being not tax-deductible). However, sometimes the entities may be required to show a slightly different operating result, because they believe that the definition of the IASB is less useful (e.g., with referent to the interest income in the lease business). Then the presentation of the tax effect and the NCI may be a high burden for an entity, especially taking into account that the same information are not available for the operating income itself. He especially expressed concerns about the new NCI requirements which would be costly and challenging. Indeed, the current consolidation system for calculating NCI starts at the bottom of the statement of profit or loss.

Maciej Tuszkiewicz welcomed the IASB's proposal, which was a simplification compared to the ED. He stated that small entities may receive specific tax exemptions and discounts that are almost not linked to the entity's profit or loss which, therefore, would be extremely difficult to allocate for each reconciling line item. He still believed this simplified method was better than the original proposal as well as less costly.

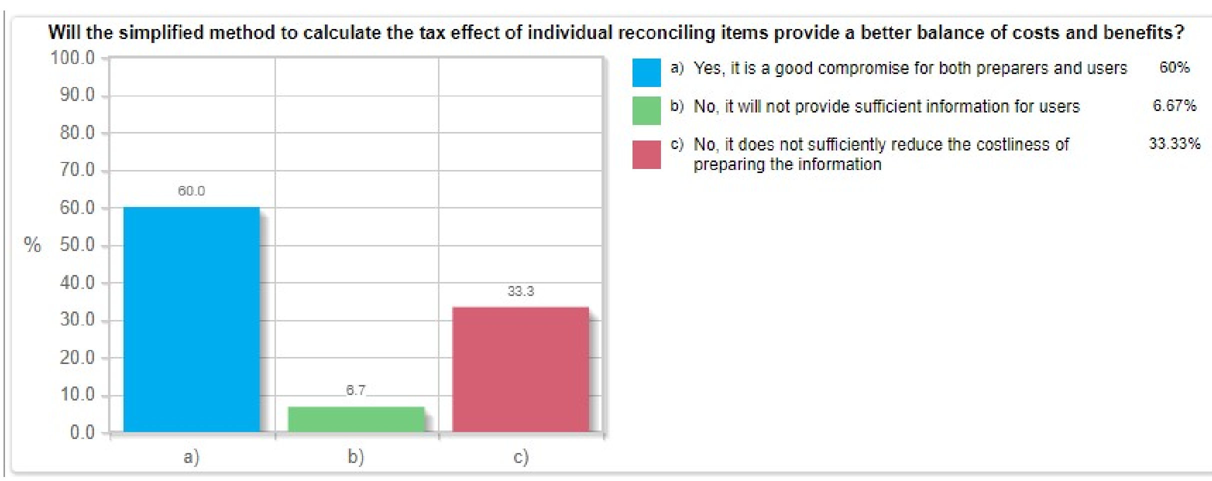
Disclosure requirements on each reconciling item - Is it feasible to disclose the amount(s) related to each line item(s) in the statement(s) of financial performance?

Marisa Mazo Fajardo commented that she would like such reconciliation to be able to compare the MPM across entities; on the other hand, she acknowledged that this approach could be costly for preparers. She suggested to find a middle way-forward to not have much more costs for preparers but, at the same time, allow users to make some MPM comparable across different entities.

Martijn Bos highlighted that users did not request too many disclosures but if they were present, they should be complete. All entities who reported EBITDA would have to reconcile it to the operating profit before depreciation, amortisation and impairments ("OPDAI"). This particular reconciliation will soon become a critical element in many investors' analysis as it empowered investors to make their own judgment on each of the reconciliating items. This reconciliation was unlikely to be costly because any deviations from the accounting standards are created by management itself. He even encouraged entities to produce MPMs as differences between IFRS and the management view are likely to be of great interest to investors. He also re-emphasized the need to complete the PFS project without delays.

Maciej Tuszkiewicz believed that the effort for preparers providing such disclosure is very entity specific and dependent on the entity's current accounting system. He expressed some concerns on its usefulness and he highlighted the need to find a good balance between the amount and the usefulness of the information included in the financial statements.

Jens Berger, introducing the results of the polling question, stated that there was a majority of the audience saying the IASB's proposal was a good compromise. However, a third of the respondents did not believe it reduced the costs for providing the additional information.



Jens Berger introduced the questions from the audience:

Audience question: *"The complexity is not with the Non-Controlling Interest ("NCI") and tax impact and not the primary reconciliation items. Why are the tax and NCI impacts on reconciliation items so important?"*

Martijn Bos replied that investors did not receive operating profit as a dividend. So, they needed to look beyond the operating result to understand the real expected cash flows from the entity. In addition, they also need these disclosures to model taxes for a better judgment in estimating current and future tax expenses.

Audience question: *"There was a reference in slide 29 to extending MPM's scoping to ratios, cashflows etc. Any comments from panellists on this?"*

Nick Anderson responded that this was a strong request that came from users and preparers and had been included in EFRAG's comment letter. He explained that this proposal would be a considerable scope expansion and would delay the project. Disclosures were required where measures relate to statement of financial performance or where they are subtotals of income and expenses included in ratios. However, the IASB decided not to extend this requirement to balance sheet and cashflow measures, for which the IASB may address in a specific project if there was stakeholder demand. He also added that some entities were concerned about duplication of their non-IFRS measures and whether they could be included in the financial statement. The IASB decided to not explicitly prohibit or permit those measures. He noted that this was an issue more for local jurisdictions and regulators in those jurisdictions.

Martijn Bos sympathised with the proposal to extend this reconciliation for amounts in the cash flows and financial position statements, but he did not want the project to be delayed. Further, there was a cashflow project soon starting and it could be that it would be a relevant topic in that project. He did not support the inclusion of ratios as MPM because it could result in a huge number of additional reconciliations that may not add to investors' insight. He believed that limiting reconciliations to amounts was likely to provide sufficient information.

Topic 4 – Unusual income and expenses

Nick Barlow presented the IASB's key tentative changes to the proposals included in the ED related to the unusual income and expenses, as outlined in the accompanying slides.

Filipe Alves presented the preliminary feedback from EFRAG outreach activities on unusual income and expenses, as outlined in the accompanying slides.

Jens Berger moderated the panel discussion on *Topic 4 - Unusual income and expenses*.

What are your views on the IASB latest decision to withdraw the proposal for disclosure requirements on unusual items?

Maciej Tuszkiewicz regretted that it was not included as a part of the standard, while understanding the underlying reasons, which were mainly related to time constraint and the difficulty to find a common definition. He was concerned about the risk that some entities will not disclose unusual items and will bundle them with something 'more usual', losing information in the process and information value for the users. He hoped it would be a part of a future project.

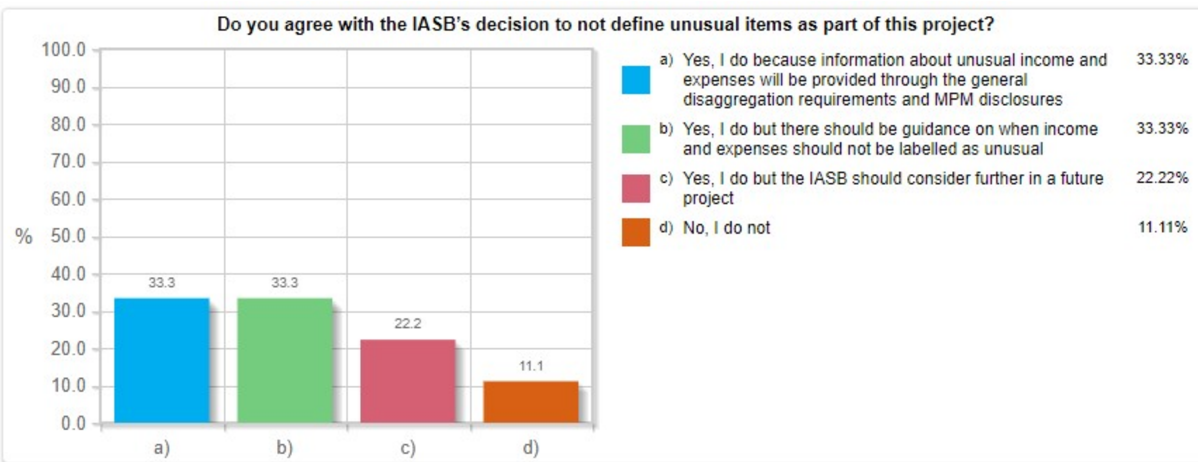
Martijn Bos commented that investors wished to know any unusual items but admitted that defining 'unusual' was difficult. He stated that many entities will produce MPMs that help to explain why results differed from IFRS subtotal. These reconciliations should get investors to where they need to be in most cases. Foregoing this would have a limited impact due to the strength of the IASB's work on MPMs. His remaining concern was that some entities might feel more enticed to search for unusual costs than for unusual incomes and wondered if extra safeguards to ensure that better explanations of unusual/other incomes are possible.

Luca D'Onofrio agreed that there were difficulties in defining what was unusual. He expressed concern that another line item with subjectivity would reduce comparability, so he agreed with the decision to postpone this subject. He also believed that there was scope to cover it optionally in the notes.

Nicklas Grip agreed to not attempt to define ’unusual’. He stated that users were less interested in unusual activity but more interested in finding items that distorted the possibility to identify recurring earnings.

Andreas Gattung also agreed that deviations require comments irrespective if the reason for a deviation falls into the definition of unusual item or not. However, if the IASB still wants to continue the discussion later, he preferred to line out the unusual items in a separate line of the statement of profit or loss and explain them in the disclosure.

Jens Berger introduced the results of the polling question related to unusual items. He stated that the audience had strong support for the current IASB tentative decision.



Closing remarks and main takeaways

Jens Berger concluded that, in general, panel members welcomed the IASB’s pragmatic approach on some topics (e.g., withdrawing the original proposal related to unusual items) to avoid further delays on the project. There are still some elements to be discussed mainly related to (i) the presentation of the equity accounted investments and (ii) the disclosure of the operating expenses by nature when presented by function in the statement of profit or loss. He also highlighted that the IASB is making progress in terms of reaching a general consensus and of the project finalisation.

He thanked all the panellists for the good and in-depth discussion, thanked the audience for the good questions and, finally, closed the event.