

PRIMARY FINANCIAL STATEMENTS

EFRAG TEG-User Panel

12 APRIL 2022



European Financial Reporting Advisory Group



Category	Budget	Actual
Social media	\$2,000.00	\$2,000.00
Groups	\$3,500.00	\$3,500.00
Messengers	\$2,000.00	\$2,000.00
Web	\$1,000.00	\$1,000.00
SEO	\$300.00	\$300.00
Printed materials	\$5,000.00	\$5,000.00
Other		
Total		\$19,800.00

DISCLAIMER

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG-User Panel. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG-User Panel. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

OVERVIEW

UPDATE ON THE PROJECT

ANALYSIS OF OPERATING EXPENSES – A WAY
FORWARD





UPDATE ON THE PROJECT

BACKGROUND

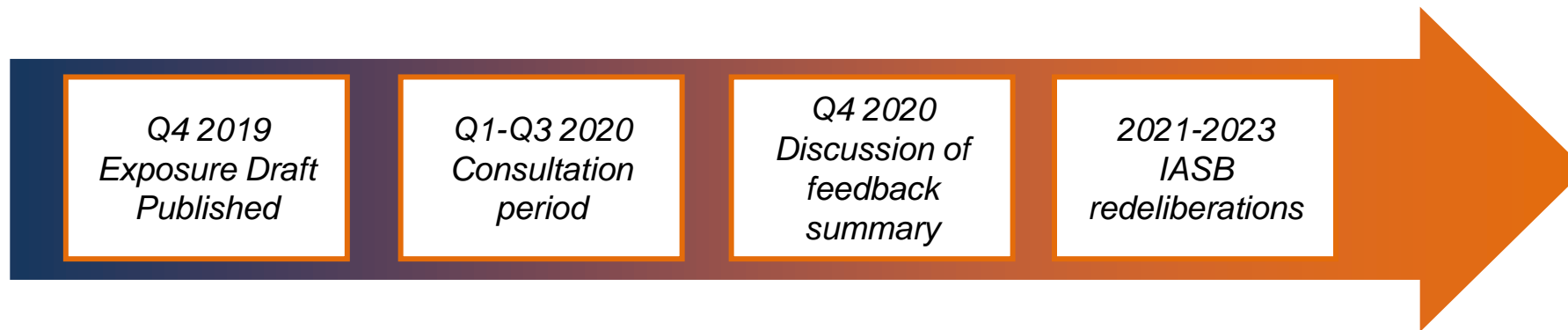
KEY MILESTONES ON THIS PROJECT

- In December 2019, the IASB published the ED *General Presentation and Disclosures* where it includes proposals to improve how information is communicated in the financial statements, with a focus on the statement of profit or loss
- EFRAG published its Draft Comment Letter in February 2020 and was open for comments until September 2020
- After the publication of its DCL, EFRAG realised a programme of outreach events and stakeholder meetings in partnership with other organisations, including with the IASB
- In March 2020, in close coordination with European national standard setters and the IASB, EFRAG launched a field-testing of the IASB's proposals included in the ED
- To collect input from the community of interested preparers that were unable to participate in the field-tests, EFRAG organised an online event on 1 September 2020 focused on preparers
- In November 2020, EFRAG issued its Final Comment Letter
- More details on [EFRAG Website](#)

PROJECT STATUS AND REDELIBERATIONS TO DATE

OBJECTIVE OF THE ED

- Improve communication in financial statements
- Focus on information included in the statement of profit or loss



The IASB is proceeding with its deliberations and EFRAG Secretariat is providing regular updates to EFRAG TEG

PROJECT STATUS AND REDELIBERATIONS TO DATE

Topic	Proposals discussed by the IASB	Proposals yet to be redeliberated
Subtotals	<ul style="list-style-type: none"> • Required subtotals • Classification in categories, general model • Associates and joint ventures • Classification by entities with specified main business activities 	<ul style="list-style-type: none"> • Remaining issues with classification by entities with specified main business activities • Remaining issues related to investing and financing categories
MPMs	<ul style="list-style-type: none"> • Scope and definition • Disclosure of reconciliation 	<ul style="list-style-type: none"> • Disclosure of tax and non-controlling interest • Single note, columns, cross-referencing, relationship with segments and other
Disaggregation	<ul style="list-style-type: none"> • Roles of primary financial statements and notes • General principles of aggregation and disaggregation • Direction for unusual income and expenses • Presentation of operating expenses • Direction for disclosure of operating expenses 	<ul style="list-style-type: none"> • Definition of unusual income and expenses, related disclosures • Disclosure of operating expenses • Proposals relating to items labelled 'other' and other remaining general disaggregation topics • Consequential amendments
Cash flow statement	<ul style="list-style-type: none"> • Most issues related to Statement of Cash Flows 	<ul style="list-style-type: none"> • Remaining proposals for statement of cash flows

KEY CHANGES TO THE ED

Subtotals and categories

Classification of income and expenses from cash and cash equivalents from financing to the investing category

Approach to classification of items in the financing category

Default category for gains and losses from derivatives and hedging instruments changed from investing to the operating category

Undue cost or effort relief for FX classification

Distinction between integral and non-integral associates and joint ventures removed as well as related subtotal

Add application guidance for some income and expenses in investing category, include objective in the Basis for Conclusions, and remove definition of 'income and expenses from investments'

Income and expenses from associates and joint ventures classified in investing category

Disaggregation

Include a reference to understandability in the description of the role of financial statements

Emphasise that single dissimilar characteristic can be enough to disaggregate if it is material

State the purpose of disaggregation more clearly and strengthen the application of disaggregation

Provide additional guidance to apply the principles, both in the primary financial statements and the notes.

Remove the proposed prohibition on a mixed presentation approach for operating expenses.

Remove 'limited predictive value' from definition of unusual items and add application guidance.

Revise the general principle for the presentation of line items and add application guidance.

KEY CHANGES TO THE ED

Management Performance Measures

Subtotal of income and expense used in the numerator or denominator of a ratio is MPM

In the definition, remove the reference to 'complementing'.

Introduce a rebuttable presumption that a subtotal used in public communications represents management's view of an aspect of the entity's financial performance, and add application guidance on rebuttal.

Add application guidance, and refer to general requirement for faithful representation, removing specific requirement.

Application guidance for disclosure of why an MPM communicates management's view of performance.

Disclose, for each reconciling item, amount(s) related to each line item in the statement(s) of financial performance.

Other

Amend the specified subtotal 'operating profit or loss before depreciation and amortisation' to exclude impairments of assets within the scope of IAS 36

PROJECT STATUS AND REDELIBERATIONS TO DATE

EFRAG SECRETARIAT ANALYSIS

Financing category

The IASB changed its approach and added new detailed guidance that needs to be tested (target outreach may be needed)

Equity-accounted associates and joint ventures

Not fully aligned with EFRAG Letter as no requirement for distinction between integral and non-integral associates and joint ventures in the disclosures and no requirement for a separate subtotal for equity-accounted investments

Analysis of operating expenses

Decisions are fairly aligned with EFRAG's letter but the IASB should still clarify when mixed presentation is acceptable and need to find a solution for disclosures by nature when presenting by function (target outreach may be needed)

Unusual items

Definition of unusual items continues to seem to be narrow, as it focuses on whether expenses/income will occur in the future and further application guidance would be useful

PROJECT STATUS AND REDELIBERATIONS TO DATE

EFRAG SECRETARIAT ANALYSIS

MPMs – Scope

Not fully aligned with EFRAG letter as the IASB has tentatively decided to not widen the scope of the MPMs significantly to avoid scope creep and be aligned with the focus of the project (target outreach may be needed on numerator or denominator of a ratio)

MPMs – Definition

The IASB addressed some of the concerns related to narrowing the definition of public communication, concerns on establishing a rebuttable presumption for MPMs as it may increase the complexity and disclosures on this topic (target outreach may be needed)

MPMs - Disclosures

Requiring 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 – the illustrative example provided by the IASB was just a way of providing the information and not a specific format required (target outreach may be needed)

IASB Approach for discussions

Decisions are fairly aligned with EFRAG comment letter but clarify when mixed presentation can be used and further application guidance would be useful

QUESTIONS TO MEMBERS

EFRAG QUESTIONS

Q1: Do you have any questions/comments related to the topics presented?

Q2. Do you agree with the EFRAG Secretariats assumptions to the areas to be tested?

ANALYSIS OF EXPENSES – PROFIT OR LOSS STATEMENT

From EFRAG's outreach activities and comment letters, the EFRAG learned that:

- many entities currently using a 'function of expense' method fail to disclose additional information on the nature of expenses and if such information is presented, it may be scattered across several notes.
- many users consider that information on the nature of expenses is useful in predicting future cash flows and that only a few natural items are specifically required in paragraph 104 of IAS 1 (ie depreciation, amortisation and employee benefits expense).
- many preparers disagree with the requirement to disclose additional information on the nature of expenses when classifying expenses by function because they are unable to provide this information with their current accounting systems.
- **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).**

ANALYSIS OF EXPENSES – DISCLOSURES

Statement of profit or loss	20X2	20X1
Revenue	3000	...
Cost of goods sold	(600)	...
Gross profit	2400	...
Selling expenses	(500)	...
General and administrative expenses	(100)	...
Research and development expenses	(300)	...
Other income	300	...
Operating profit or loss	1800	...

CURRENT REQUIREMENTS IN IAS 1

Disclosure	20X2	20X1
Depreciation, Amortisation (bundled for simplification)	(300)	...
Employee benefits	(300)	...

Only a few natural items are specifically required in IAS 1

IASB INITIAL PROPOSAL IN ED

Disclosure in a single note	20X2	20X1
Changes in inventories of finished goods and work in progress	300	...
Materials	(700)	...
Depreciation, Amortisation (bundled for simplification)	(300)	...
Employee benefits	(300)	...
Impairment	(200)	...
Other	(300)	...
Operating expenses total	(1500)	...

Preparers considered that it was too costly to provide the total amount of operating expenses by nature in the disclosures

ANALYSIS OF EXPENSES – DISCLOSURES

POTENTIAL SOLUTIONS – PARTIAL MATRIX 1

Statement of profit or loss	20X2	20X1
Revenue	3000	...
Cost of goods sold	(600)	...
Gross profit	2400	...
Selling expenses	(500)	...
General and administrative expenses	(100)	...
Research and development expenses	(300)	...
Other income	300	...
Operating profit or loss	1800	...

Matrix 1 - Some expenses by nature would be disaggregated by function line items

Disclosure in a single note	20X2	20X1
Depreciation, Amortisation (bundled for simplification)	400	...
Cost of goods sold	250	...
Selling expenses	50	...
General and administrative expenses	50	...
Research and development expenses	25	...
Delta	25	...
Employee benefits	400	...
Cost of goods sold	150	...
Selling expenses	100	...
General and administrative expenses	50	...
Research and development expenses	50	...
Delta	50	...

Could help replacing the information presented by function and help investors developing cash-flow models on a by nature basis

Could help identifying where non-cash flows items are located (e.g. amortisation)

Would the benefits for users outweigh the cost for preparers?

ANALYSIS OF EXPENSES – DISCLOSURES

POTENTIAL SOLUTIONS – PARTIAL MATRIX 2

Statement of profit or loss	20X2	20X1
Revenue	3000	...
Cost of goods sold	(600)	...
Gross profit	2400	...
Selling expenses	(500)	...
General and administrative expenses	(100)	...
Research and development expenses	(300)	...
Other income	300	...
Operating profit or loss	1800	...

Matrix 2 - Some expenses by function would be disaggregated by nature line items

Disclosure in a single note	20X2	20X1
Cost of goods sold	600	...
Depreciation, Amortisation (bundled for simplification)	250	...
Employee benefits	150	...
Materials	150	...
Impairment	25	...
Other	25	...
Selling expenses	500	...
Depreciation, Amortisation (bundled for simplification)	100	...
Employee benefits	150	...
Materials	200	...
Other	50	...

Disaggregation could help investors that currently prepare cash-flow models on a by function basis

Could help identifying what drives each expense presented by function (e.g. cost of sales)

May lead to a very long list of items by nature

Would the benefits for users outweigh the cost for preparers?

ANALYSIS OF EXPENSES – DISCLOSURES

EFRAG SECRETARIA POTENTIAL SOLUTION: MATERIAL ITEMS ALREADY REQUIRED IN OTHER IFRS

Statement of profit or loss	20X2	20X1
Revenue	3000	...
Cost of goods sold	(600)	...
Gross profit	2400	...
Selling expenses	(500)	...
General and administrative expenses	(100)	...
Research and development expenses	(300)	...
Other income	300	...
Operating profit or loss	1800	...

Disclosure in a single note	20X2	20X1
Materials	(700)	...
Depreciation, Amortisation (bundled for simplification)	(300)	...
Employee benefits	(300)	...
Impairment	(200)	...

Require a single note line items by nature already required to be disclosed in other IFRS Standards

QUESTIONS TO MEMBERS

EFRAG QUESTIONS:

Q3: If an entity presents its analysis of expenses by function, is it fundamental to have information of the operating expenses by nature in the disclosures?

Q4. If so, which line items by nature are fundamental to you (e.g. impairments, restructurings, employee costs or depreciation?)

Q5: Which of the approaches described above would provide you with more relevant information (IAS 1, the ED, partial matrix 1, partial matrix 2 or EFRAG Secretariat's approach)? Why?



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THANK YOU



EFRAG
Aisbl - ivzw
35 Square de Meeüs
B-1000 Brussel
Tel. +32 (0)2 210 44 00
www.efrag.org

