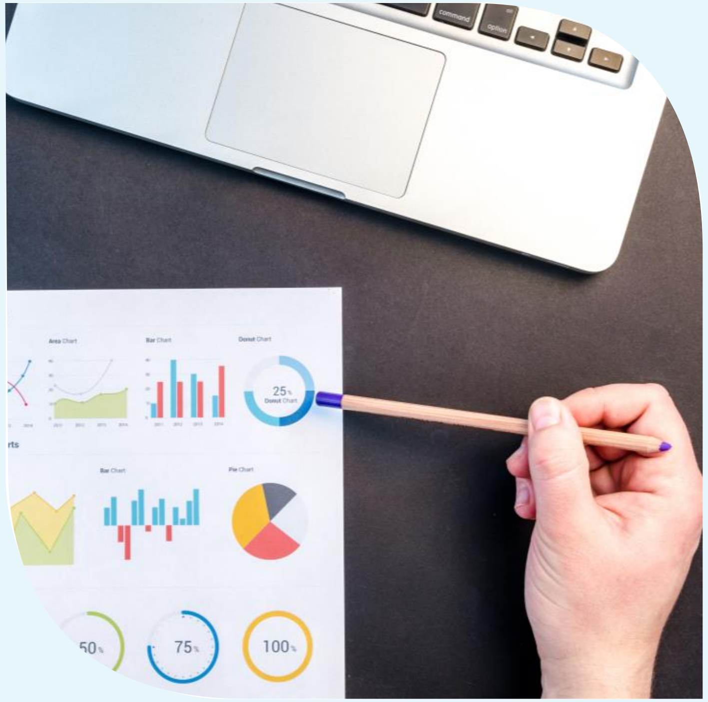
# PRIMARY FINANCIAL STATEMENTS

EFRAG FR TEG-UP 10 May 2023

UPDATE ON THE IASB DISCUSSIONS



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# OVERVIEW

IFRS
Accounting

# EFRAG FR TEG / User Panel

| | |
|---|---|
| Date | **10 May 2023** |
| Project | **Primary Financial Statements** |
| Topic | **Update to EFRAG FR TEG / User Panel** |
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# Project overview

| Q4 2019 | Q1–Q3 2020 | Q4 2020 – Q3 2022 | Q4 2022 | 2023 |
|---|---|---|---|---|
| Exposure Draft published | Consultation period | Discussion of feedback and key redeliberations | Targeted outreach on specific topics | Discussion of feedback and complete redeliberations |

## Objective

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

## Main proposals

1. Require additional **defined subtotals** in statement of profit or loss
2. Require disclosures about **management performance measures**
3. Strengthen requirements for **disaggregating information**

# Overview of the IASB's due process

**Completion of deliberations**

IASB has reached general agreement on technical matters in the project and considered the likely effects of the new IFRS Accounting Standard.

**IASB considers the due process requirements**

Technical staff present a paper to the IASB summarising the steps the IASB has taken in developing the Accounting Standard and assessing whether the proposals can be finalised or whether they should be re-exposed (see slide 7). The IASB will follow the steps in the Due Process Handbook if re-exposure is deemed necessary.

**IFRS Accounting Standard is prepared for balloting (see slide 8)**

**IASB informs the DPOC of its decision on whether or not to proceed to ballot stage**

The IASB explains to the Due Process Oversight Committee (DPOC) whether or not re-exposure is necessary and why, before the IFRS Accounting Standard is issued

**Additional consultation**

The IASB may also consult the IFRS Advisory Council or any consultative groups to seek advice on steps after publication to support implementation

**Publication of IFRS Accounting Standard**

Including Basis for Conclusions, Illustrative Examples and Effects Analysis. Requires a supermajority of IASB members

**Materials accompanying an IFRS Accounting Standard**

Other materials will also be published, for example project summary and feedback statement

# Criteria for re-exposure

In considering whether there is a need for re-exposure, the IASB:

| | |
|---|---|
| 1 | identifies **substantial issues that emerged during the comment period** on the Exposure Draft that it had not previously considered; |
| 2 | assesses the **evidence** that it has considered; |
| 3 | determines whether it has sufficiently understood the **issues, implications and likely effects** of the new requirements and **actively sought the views of interested parties**; and |
| 4 | considers whether the **various viewpoints were appropriately aired** in the Exposure Draft and **adequately discussed and reviewed in the Basis for Conclusions**. |

*It is inevitable that final proposals will include changes from those originally proposed –* ***this does not compel the IASB to re-expose.***

*The IASB needs to consider whether the revised proposals include* ***any fundamental changes on which respondents have not had the opportunity to comment*** *because they were not contemplated or discussed in the basis for conclusions accompanying the exposure draft. The IASB also needs to consider whether it will* ***learn anything new*** *by re-exposing the proposals. If the IASB is satisfied that the revised proposals* ***respond to the feedback received and it is unlikely that re-exposure will reveal any new concerns, it should proceed to finalise the proposed requirements.***

IFRS Accounting

# Overview of the balloting process

**A drafting, review and approval process to ensure an IFRS Accounting Standard is well written and accurately reflects IASB decisions**

## Ballot drafts

### Pre-ballot draft

- An early draft reviewed by IASB members to ensure the technical decisions taken by the IASB are captured correctly and that the document is clearly written.
- There may be more than one pre-ballot draft.

### Ballot draft

- Circulated for IASB members to approve once feedback from the IASB members on the pre-ballot draft has been considered.
- IASB members confirm that they are satisfied the document is consistent with the decisions taken during public IASB meetings and that they are happy to put their name to it.
- If an IASB member dissents from the publication of the document, the reasons will be explained within the document when published.

## Additional reviews

- Editorial, translations and digital reporting teams also review the draft to make sure the document is understandable, can be translated into other languages and incorporated into the IFRS Foundation's taxonomies to enable digital reporting.
- The process may also include reviews by external stakeholders.

## Sweep issues

- Sometimes the balloting process may reveal new issues or inconsistencies between sections of an IFRS Accounting Standard.
- If that happens, the questions—called 'sweep issues'—will be brought back to the IASB to discuss and resolve at a public IASB meeting prior to finalising the document for publication.

# Overview of feedback from targeted outreach conducted in Q4 2022

| | |
|---|---|
| Overall comments | • Most supported the direction of the redeliberations and would like to see the project completed as soon as possible |
| Subtotals and categories | • Most agreed with the revised approach for classifying income and expenses in the financing category but requested additional guidance<br>• Some disagreed with classifying income and expenses from associates and joint ventures accounted for using the equity method in the investing category ★ |
| Management performance measures (MPMs) | • Many supported the rebuttable presumption in the definition of MPMs (see slide 14) but requested additional guidance<br>• Many supported the simplified tax calculation for reconciling items but some challenged the usefulness of the information or expressed concerns about the cost of the proposal |
| Disaggregation | • Most agreed with the revised proposal to disclose the amounts of depreciation, amortisation and employee benefits included in each line item<br>• Some supported adding impairments and write-downs of inventory to the revised proposal |

★ *Feedback that will be considered at a future IASB meeting*

# FEEDBACK RECEIVED FROM EFRAG WORKING GROUPS

## EFRAG TEG-CFSS (March 2023) ON CHANGES TO THE REDELIBERATION PLAN (APPENDIX 1)

- Members generally welcomed the IASB's adjustments to its redeliberation plan to address the feedback received in the outreaches, including discussions on associates and joint ventures
- Members highlighted the importance of having an open and transparent process on topics that will be addressed in the drafting process (e.g., improvements to the financing category and MPMs)

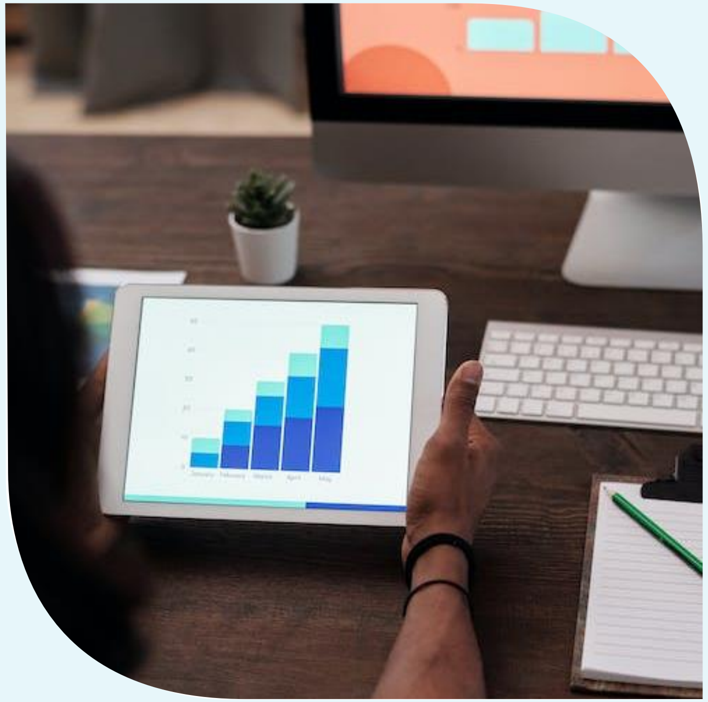
## EFRAG FRB (March 2023) ON CHANGES TO THE REDELIBERATION PLAN (APPENDIX 1)

- Some EFRAG FRB members regretted that the IASB had not included on its workplan development of guidance regarding conglomerates and groups combining different main activities
- Several members highlighted the importance of a re-discussion on the presentation of income expense from associate and joint ventures. Members from the insurance industry highlighted the issue related to the accounting mismatch due to the requirements in IFRS 17 (expense as part of operating, related income as part of investing). A few other members considered that other industries would appreciate to be able to present income and expense from associates and joint ventures within operating profit when their activities are closely related to the company's main business activities.

# QUESTIONS FOR EFRAG FR TEG-UP MEMBERS

## OVERVIEW AND CHANGES TO REDELIBERATIONS PLAN

- Do members have any general comments or questions on the status of the IASB's project or on the IASB's due process?
- Do members have any general comments on the IASB's amendments to redeliberation plan after targeted outreach illustrated in the Appendix 1?



# CATEGORIES AND SUBTOTALS

# Statement of profit of loss

Revenue

Other income

Changes in inventories of finished goods and work in progress

Raw materials used

Employee benefits

Depreciation

Amortisation

Operating profit

Income and expenses from associates and joint ventures

Operating profit and income and expenses from investments accounted for using the equity method *(specified subtotal)*

Income and expenses from investments

Income and expenses from cash and cash equivalents

Profit before financing and income tax

Income and expenses from liabilities that arise from transactions that involve only the raising of finance

Unwinding of discount on provisions

**Profit before tax**

Income tax

**Profit for the year**

Operating

Investing

Financing

*Line items illustrate what is included in each category and do not necessarily denote specified line items. An entity would present line items that provide an understandable overview of the entity's income and expenses.*

# Statement of profit or loss — financing and investing as main business activities

Interest revenue calculated using the effective interest method
Interest expense

**Net interest income**
Fee and commission income
Fee and commission expense

**Net fee and commission income**
Net trading income
Net investment income, including cash and cash equivalents
Credit impairment losses
Employee benefits expense
Depreciation and amortisation expenses

Operating profit

Share of profit or loss of associates and joint ventures

Operating profit and income and expenses from investments accounted for using the equity method *(specified subtotal)*

Specified income and expense on other liabilities (incl. interest on lease liabilities)

**Profit before tax**
Income tax
**Profit for the year**

Operating

Non-main Investing and financing

*Line items illustrate what is included in each category and do not necessarily denote specified line items. An entity would present line items that provide an understandable overview of the entity's income and expenses.*

IFRS Accounting

# Statement of profit of loss—insurance as a main business activity

| | |
|---|---|
| Insurance revenue | Operating |
| Insurance service expenses | |
| **Insurance service results** | |
| Interest revenue calculated using the effective interest rate method | |
| Dividends and fair value changes on financial assets | |
| Other impairment losses | |
| Insurance finance expenses | |
| **Net financial result** | |
| Other expenses | |
| Operating profit | |
| Share of profit or loss of associates and joint ventures accounted for using equity method* | Investing |
| Profit before financing and income tax | |
| Specified income and expense on other liabilities (incl. interest on lease liabilities) | Financing |
| **Profit before tax** | |
| Income tax | |
| **Profit for the year** | |

*Line items illustrate what is included in each category and do not necessarily denote specified line items.*
*An entity would present line items that provide an understandable overview of the entity's income and expenses.*
** An entity may present or disclose a specified subtotal of 'operating profit and income and expenses from investments accounted for using the equity method'.*

# EFRAG SUMMARY REPORT AND RECOMMENDATIONS

## FEEDBACK RECEIVED ON CATEGORIES AND SUBTOTALS

- questions on the classification of specific items and some concerns on having an operating category defined as a residual category ("default category")
- the wording used by the IASB to define the financing category was not always well understood and there was a call for additional application guidance
- both users and preparers highlighted that it would be more appropriate for corporates to present income and expenses from cash and cash equivalents in the financing category

## FEEDBACK RECEIVED ON EQUITY ACCOUNTED INSTRUMENTS

- mixed views on the presentation of income and expenses from associates and JVs - many agreed with the IASB's revised proposal (particularly users), while some considered that investments that contribute to the entity's main business activities should be in the operating category
- questions on the use of additional subtotals related to associates and JVs and the interaction of such potential subtotals with requirements on specified subtotals and MPMs

# EFRAG SUMMARY REPORT AND RECOMMENDATIONS

## RECOMMENDATIONS ON CATEGORIES AND SUBTOTALS

- retain the residual approach for operating profit but consider the comments provided by EFRAG in its comment letter on the IASB's 2019 ED
- improve the definition of the financing category by providing application guidance to better explain the definition and illustrate how its definition would apply to some transactions
- classify income and expenses from cash and cash equivalents in the financing category as it would provide relevant information to users, particularly when corporate use a net-debt concept*

## RECOMMENDATIONS ON ASSOCIATES AND JOINT VENTURES

- require more information and transparency on the nature of the investments in associates and joint ventures in the disclosures (e.g., investees that are closely linked to the operations)
- clarify the interaction of having additional line items and subtotals with the IASB's proposals on specified subtotals and MPMs, including when the reconciliation disclosure requirements would apply

** The IASB considered the feedback received and discussed this topic early this year.*

# EFRAG SUMMARY REPORT AND RECOMMENDATIONS

## INSURANCE COMPANIES

- Insurance industry highlighted that the issue is important and requested presenting results from investments in associates and joint ventures that are linked to insurance contracts within the operating profit
- Else, there would be a mismatch as the operating category would only include expenses related to insurance contract liabilities and no associated investment results from the assets held to service those liabilities
- Users that are following the insurance companies expressed some sympathy for a presentation within the operating category, but they asked for a clear distinction between associates and JVs that are investments at the service of the insurance liabilities and other investments
- Therefore, EFRAG recommended that the IASB should consider requiring the presentation of results from investments in associates and JVs that are linked to insurance contracts in the operating category

# FEEDBACK RECEIVED FROM EFRAG UP AND OTHER USERS

## CATEGORIES AND SUBTOTALS

- Welcomed the IASB’s proposals to improve the structure and content of financial statements
- Preference for corporates to present income and expenses from cash and cash equivalents in the financing category

## ASSOCIATES AND JOINT VENTURES

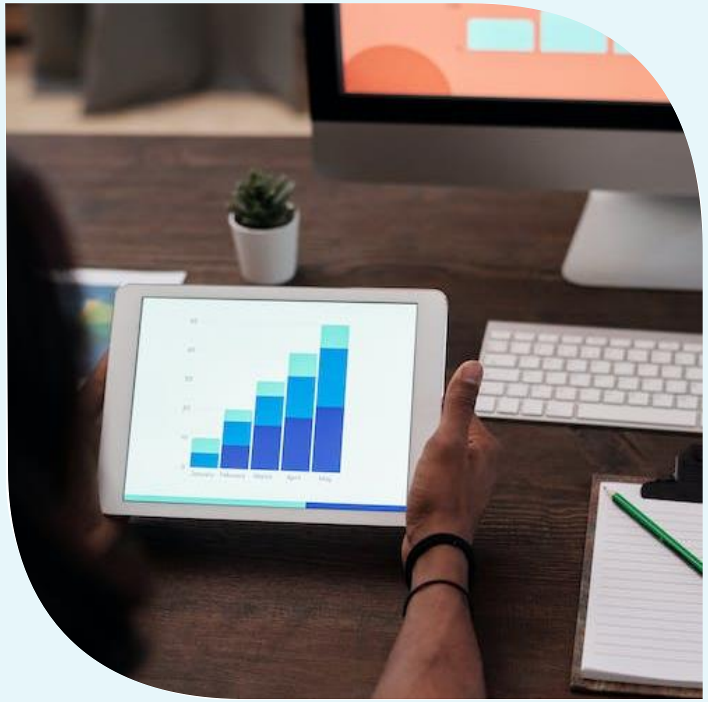
- In general, preference was given to all associates and JVs presented outside of operating profit, including those measured at cost and fair value
- Welcomed the IASB’s decision to withdraw the distinction between integral and non-integral

***Insurance companies***

- In general, members were not in favour of having industry specific exceptions as other industries will subsequently call for an exception - however, some members (with specific industry background) expressed sympathy for a presentation within the operating category and noted the importance of a clear distinction between investments that are at the service of the insurance liabilities and other investments

EFRAG

# QUESTIONS FOR EFRAG FR TEG-UP MEMBERS



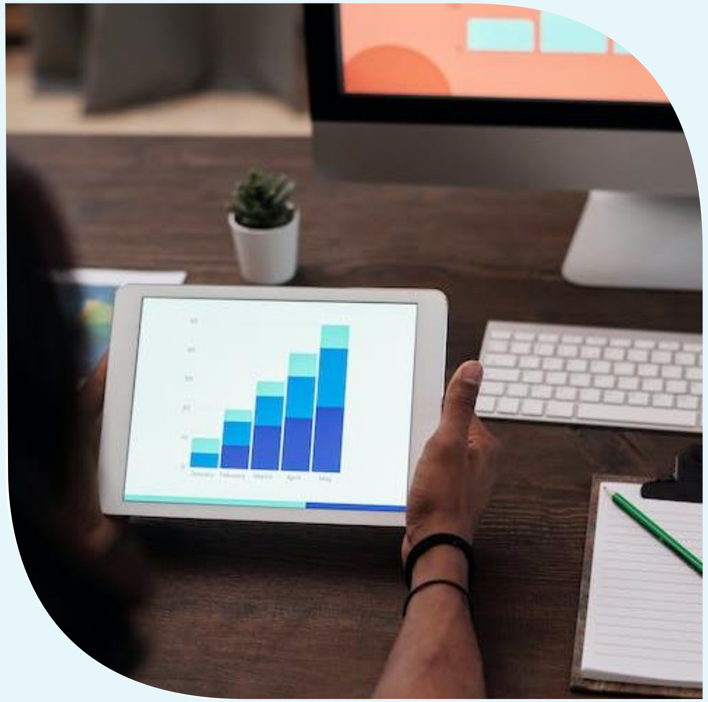
## CATEGORIES AND SUBTOTALS

- Do members have any comments on the proposed structure and content of the statement of profit or loss?
- Do members have comments on the IASB's revised proposals on income and expense from investments accounted for using the equity method?
- Do members consider that the use of additional line items and/or subtotals to present associates and joint ventures results in useful information (such as the specified subtotal "operating profit or loss and income and expenses from investments accounted for using the equity method")?

# QUESTIONS FOR EFRAG FR TEG-UP MEMBERS

## CATEGORIES AND SUBTOTALS

- Do members consider that it would be useful to have additional subtotals related to associates and joint ventures?
- And if so, do you consider it would be useful the IASB better explained the use of additional subtotals related to associates and joint ventures(*) and the interaction of such potential line items and subtotals with the IASB's proposals on specified subtotals and MPMs, including when the reconciliation disclosure requirements would apply?



(*) e.g., the possibility of using additional line items or subtotals outside operating profit that reflect management views of integral and non-integral associates and joint ventures

# MANAGEMENT PERFORMANCE MEASURES

# Definition of MPMs

**Subtotals of income and expenses not specified by IFRS Accounting Standards that:**

Are used in public communications outside financial statements (excluding oral communications, transcripts and social media posts)

=

Communicate management's view of an aspect of an entity's financial performance

Rebuttable presumption that a subtotal used in public communications represents management's view of an aspect of an entity's financial performance—rebutted with reasonable and supportable evidence (including management communicating or using a subtotal in a way that is consistent with the assertion that the subtotal does not communicate management's view).

The rebuttable presumption is intended to:

- reduce the subjectivity involved in identifying the subtotals that represent management's view; and
- avoid requiring entities to include as management performance measures, subtotals of income and expenses that do not represent management's view of an aspect of the entity's performance

# What disclosures will be required for MPMs?

| | |
|---|---|
| Reconciliation | Reconciliation between MPM and the most directly comparable subtotal or total specified by IFRS Accounting Standards, including the income tax effect and effect on non-controlling interests |
| Why an MPM communicates management's view | Includes an explanation of how the MPM is calculated and how the measure provides useful information about the entity's performance. Explanation should refer to individual reconciling items where necessary |
| Not necessarily comparable with other entities | A statement that MPM provides management's view of an aspect of the entity's financial performance and is not necessarily comparable with measures provided by other entities |
| Changes in calculation | Explanation of and reasons for any changes in how the entity calculates its MPMs or which MPMs it provides |

# What might a reconciliation look like?

| | | Tax | NCI |
|---|---|---|---|
| **Adjusted operating profit (MPM)** | **52,870** | **Tax** | **NCI** |
| Restructuring in Country X (incl. in employee benefits) | (5,400) | 900 | (1,020) |
| Revenue adjustment (incl. in revenue) | (6,200) | 1,550 | - |
| **Operating profit (IFRS-specified)** | **41,270** | | |

**Most directly comparable subtotal/total specified by IFRS Accounting Standards**—can be:

- operating profit, profit before financing and income tax;
- gross profit and subtotals similar to gross profit;
- profit before tax, profit from continuing operations, profit or loss;
- total other comprehensive income, comprehensive income;
- operating profit before depreciation, amortisation and specified impairments
- operating profit and income and expense from investments accounted for using the equity method

**Tax effect** can be calculated:

- using the statutory tax rate(s) applicable to the underlying transaction(s) in the relevant jurisdiction(s);
- on the basis of a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction(s) concerned; or
- by another method that achieves a more appropriate allocation in the circumstances.

An entity is required to disclose how it has determined the income tax effects. The disclosure is required for each reconciling item if more than one method is used to calculate the tax effect.

# EFRAG SUMMARY REPORT AND RECOMMENDATIONS

## FEEDBACK RECEIVED ON MPMs

- Questions on the extent to which additional subtotals in the financial statements (e.g., subtotals of subtotals and subtotals merely reflecting reclassification of line items) would be considered as MPMs
- Questions on the effective applicability of the rebuttable presumption for all the significant measures communicated for regulatory purposes - mainly raised by highly regulated entities (e.g., banks)
- There were mixed views on the simplified approach to calculating the tax effect:
  - Some welcomed a simplified approach as it would remove large part of operational complexity; however, it was noted that it could lead to oversimplifications and the disclosed amounts could be very different to the actual effects
  - Others were not convinced that such an approach actually resulted in a simplification for reporting entities, particularly for international groups
- Call for additional guidance for implementation (e.g., illustrative examples)

# EFRAG SUMMARY REPORT AND RECOMENDATIONS

## RECOMMENDATIONS ON MPMs

- Have additional application guidance on the extent to which additional subtotals on the financial statements (e.g., subtotals of subtotals and subtotals merely reflecting reclassification of line items) would be permitted and whether they would be considered as MPMs or specified subtotals
- Concerns on:
    - establishing a rebuttable presumption on MPMs for highly regulated entities as this could increase complexity and may unintendedly enlarge the scope of MPMs *
    - requiring a reconciliation, including the tax and NCI effect, of the MPMs to the most directly comparable subtotal or total specified in IFRS Standards in the interim financial statements *
    - the costs related to disclosing, for each reconciling item, the amount(s) related to each line item(s) in the statement(s) of financial performance
- Question on whether the simplified approach for the calculation of tax effect, which should mitigate some of the concerns related to the cost, would be reliable without an entity incurring incremental operational efforts to collect the required information and to prepare reliable financial information, which would have to be audited *

** The IASB considered the feedback received and discussed this topic early this year.*

# FEEDBACK RECEIVED FROM EFRAG UP AND OTHER USERS

## MPMs – REBUTTABLE PRESUMPTION

- Users generally welcomed the new rebuttable presumption on MPMs as a practical way of dealing with the subjectivity around whether a performance measure reflects management view
- However, users agreed with the concerns raised by preparers, especially financial institutions, for performance measures presented for regulatory purposes only

## MPMs – TAX DISCLOSURES

- In general, users considered that disclosures on the tax effect for reconciling items were important and useful, but they acknowledged that such a calculation could be complex and judgmental for preparers.
- Therefore, users generally agreed with the IASB’s proposal to allow a simplified approach, which was considered as an acceptable practical solutions to reduce costs for preparers and to ensure adequate information for users to model taxes for a better judgment in estimating current and future tax expenses

# FEEDBACK RECEIVED FROM EFRAG UP AND OTHER USERS

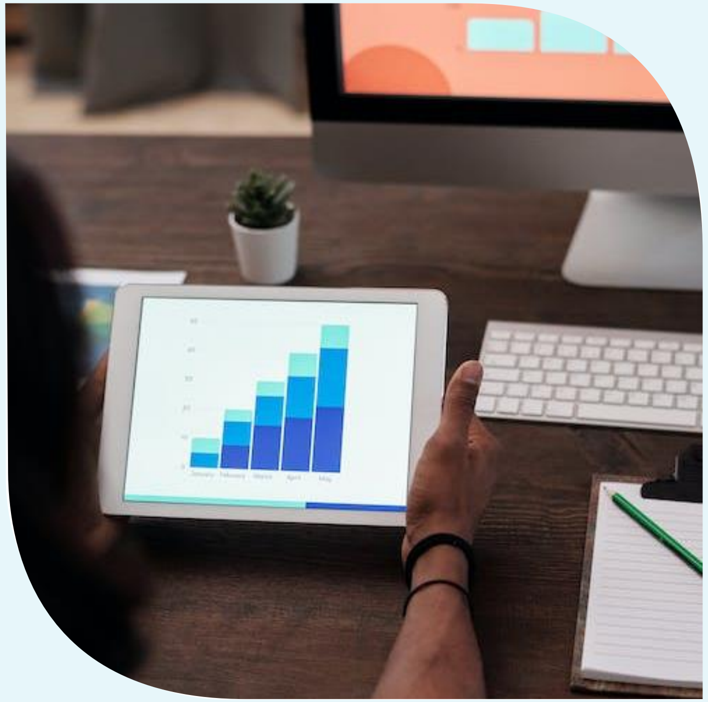
## MPMs – OTHER MATTERS

- Users considered that disclosing, for each reconciling item, the amount(s) related to each line item(s) in the statement(s) of financial performance would provide useful information and help users to compare MPMs across entities. However, they acknowledged that this requirement could be too costly for preparers
- Some participants highlighted that users prefer linking the reconciliations to the operating segments as per IFRS 8 *Operating Segments* rather than to each reconciling line item. Thus, there were questions on the need to disclose, for each reconciling item, amount(s) related to each line item in the statement(s) of financial performance

# QUESTIONS FOR EFRAG FR TEG-UP MEMBERS

## MANAGEMENT PERFORMANCE MEASURES

- Do members have any comments on the IASB's tentative decisions on MPMs (e.g., rebuttable presumption, tax effect calculation methods and disclosures)?
- Do members consider that disclosures on whether an entity has rebutted some performance measures would be useful?
- Do you think it is necessary an application guidance on the interaction between MPMs and subtotals in the statement of profit or loss (e.g., extent to which additional subtotals would be permitted and whether they would be considered as MPMs or specified subtotals)?



# DISAGGREGATION AND OTHER PROPOSALS

# Disclosure of operating expenses by nature in the notes

**The Exposure Draft proposed that an entity that reports expenses by function in the statement of profit or loss discloses in the notes an analysis of total operating expenses by nature**

Some respondents (users, standard-setters and accountancy bodies) agreed

Some respondents (preparers and their representative bodies) disagreed

To achieve a more balanced outcome between costs for preparers and benefits for users the IASB has tentatively decided to:

- require an entity to disclose the amounts of depreciation, amortisation, employee benefits, impairments and write-downs of inventory included in each function line item in the statement of profit or loss; and
- to provide application guidance clarifying that these amounts are not required to be expense amounts and to require an entity to provide a qualitative explanation if part of the amount disclosed has been included in the carrying amount of assets.

## Example

### Disclosure requirement

| Operating expenses by nature | Tab. 1 | |
|---|---|---|
| (in currency units) | 20X2 | 20X1 |
| **Depreciation** | **175** | **…** |
| Cost of goods sold | 100 | … |
| General and administrative expenses | 25 | … |
| Research and development expenses | 50 | … |
| **Amortisation** | **100** | **…** |
| Research and development expenses | 100 | … |
| **Employee benefits** | **375** | **…** |
| Cost of goods sold | 150 | … |
| Selling expenses | 100 | … |
| General and administrative expenses | 50 | … |
| Research and development expenses | 75 | … |
| **Impairments** | **80** | **…** |
| Research and development expenses | 80 | … |
| **Write-downs of inventory** | **50** | **…** |
| Cost of goods sold | 30 | … |
| Other operating expenses | 20 | … |

Table 1 shows an allocation of total depreciation, amortisation, employee benefits, impairments and write-downs of inventory to function line items.

The amounts disclosed for depreciation, amortisation and employee benefits include amounts that have been included in the carrying amount of assets (such as inventory or property, plant and equipment).

### Reconciliation table (typically disclosed in respective notes)

| Reconciliation of property, plant and equipment (in currency units) | | | | | |
|---|---|---|---|---|---|
| Carrying amount 1.1.20X2 | … | Impairment losses | Depreciation | … | Carrying amount 31.12.20X2 |
| **1,000** | **0** | **60** | **175** | **0** | **765** |

| Reconciliation of intangible assets (in currency units) | | | | | |
|---|---|---|---|---|---|
| Carrying amount 1.1.20X2 | … | Impairment losses | Amortisation | … | Carrying amount 31.12.20X2 |
| **900** | **0** | **20** | **100** | **0** | **780** |

# Changes to the statement of cash flows

Operating profit or loss subtotal to be the starting point for the indirect method of reporting cash flows from operating activities

| | | |
|---|---|---|
| Dividends received ★ | → | Investing category ★ |
| Dividends paid | → | Financing category |
| Interest paid | → | Financing category ★ |
| Interest received | → | Investing category ★ |

★ Classified in a single category (either as operating, investing or financing activities) in the statement of cash flows by an entity with specified main business activities

★ *Classification of dividends received from associates and joint ventures accounted for using the equity method to be discussed in a future IASB meeting*

# EFRAG SUMMARY REPORT AND RECOMMENDATIONS

## FEEDBACK RECEIVED ON DISCLOSURES BY NATURE WHEN PRESENTING BY FUNCTION

- Users and preparers often expressed different views, although they acknowledged that the IASB's tentative decision was a compromise
- Users highlighted that disclosures of operating expenses by nature (e.g., amortisation, depreciation, impairments, employee benefits and energy costs) were fundamental to carry out analysis, forecasts and cross-sector comparisons. Some users preferred the IASB's approach included in the ED (e.g., total operating expenses by nature), although they also welcomed disaggregation of line items presented by function such as 'cost of sales'
- EFRAG received mixed views from preparers. Some preferred the IASB's approach included in the ED, while others welcomed the IASB's revised disclosures. Their preference often depended on the IT systems that they currently have and the challenges to collect data for consolidation purposes
- Additionally, there were calls from participants for having impairments in the list of disclosures and some practical expedients, when it is difficult, to provide expense amounts – that is to provide the total costs of the year (as a proxy) rather than the expenses recognised in the statement of profit or loss, when determining such expenses involves undue cost and effort

# EFRAG SUMMARY REPORT AND RECOMMENDATIONS

## RECOMMENDATIONS ON DISCLOSURES BY NATURE WHEN PRESENTING BY FUNCTION

- EFRAG considered that the IASB proposal 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 is a compromise with the objective of achieving a better balance of the related costs and benefits (although it may be difficult and result in significant costs for some preparers) *
- However, EFRAG suggested adding impairments to the list of minimum items to be disclosed *
- The analysis of the costs and benefits of the proposed disclosures should be carefully explained in the IASB's effects analysis *
- EFRAG was not in favour of having a wider approach (considered in the outreach events) where an entity would have to disclose for all operating expenses disclosed in the notes (including those required by other IFRS Accounting Standards) the amounts included in each line item by function in the statement of profit or loss. It would be difficult and costly for many entities to allocate additional items by nature to each line item by function and could discourage entities from providing disclosures by nature on other items when not required by IFRS Accounting Standards (e.g., discourage the disclosure of energy costs as this additional item by nature would have to be disaggregated for each line item by function in the statement of profit or loss) *

** The IASB considered the feedback received and discussed this topic early this year.*

# FEEDBACK RECEIVED FROM EFRAG UP AND OTHER USERS

## DISCLOSURES BY NATURE WHEN PRESENTING BY FUNCTION

- Users consistently indicated that disclosures of operating expenses by nature when presenting by function were fundamental:
  - some users expressed preference for the IASB's approach included in the ED (e.g., total operating expenses by nature), although they welcomed disaggregation of line items presented by function such as 'cost of sales'
  - In general, users (and regulators) acknowledged the IASB's revised proposal was compromise between costs for preparers and benefits for users. However, a few users were not convinced with the cost argument put forward by preparers and referred to the example of IFRS 15
- In December 2022, EFRAG UP members noted that the IASB had already reduced the number of items required to be disclosed to address the issue of costs raised by preparers and expressed concerns about providing further reliefs that could compromise the relevance of the information. If a relief would be provided (e.g., practical expedient to provide costs of the year rather than expenses), then it would be useful to have additional information on material differences

# OTHER PROPOSALS: STATEMENT OF CASH FLOWS

## EFRAG COMMENT LETTER

- EFRAG supported the removal of options for the classification of interest and dividends in the statement of cash flows for non-financial entities. This will improve consistency in presentation of similar line items and will better reflect the nature of the respective cash flows *
- EFRAG observed that some of those line items will be classified into different categories in the statement of cash flows and the statement of profit or loss *
- However, EFRAG suggested that the IASB had 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

## EFRAG SECRETARIAT ANALYSIS

- The EFRAG Secretariat continues to agree with the IASB's proposal in the ED relating to the classification of interest and dividends in the statement of cash flows
- Based on the feedback received, both the IASB and EFRAG decided to start a specific research project on the statement of cash flows, the scope of which is still under discussion

** The IASB considered the feedback received and discussed this topic early this year.*

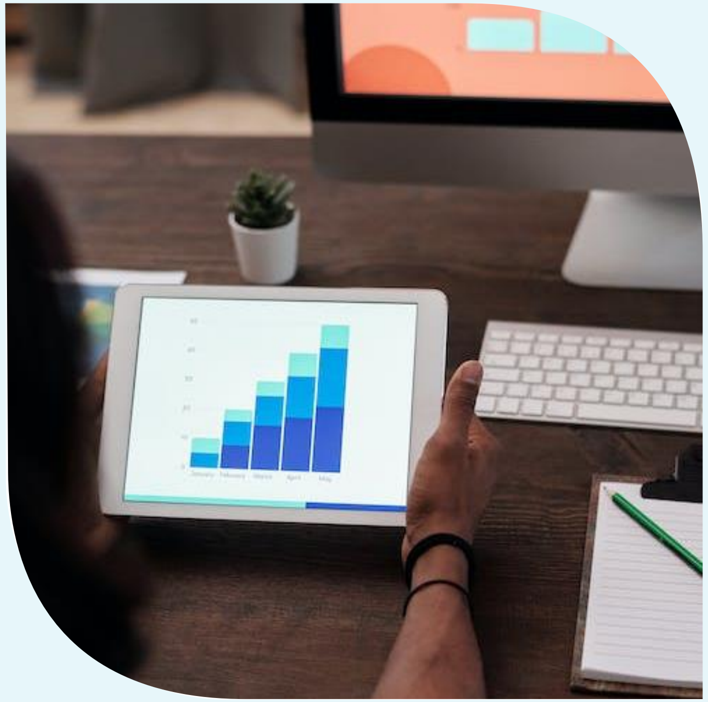
# QUESTIONS FOR EFRAG FR TEG-UP MEMBERS

## DISCLOSURES BY NATURE WHEN PRESENTING BY FUNCTION

- Do members consider that disclosing the total nature amount of operating expenses – that is a combination of amounts recognised as an expense in the period and amounts included in the carrying amount of assets – could provide useful information?
- In such cases, do members consider that the qualitative explanation in the notes would be enough? If no, which additional disclosure do you consider appropriate?
- Do members have any comments on the IASB's tentative decisions on disclosure by nature when presenting by function?

## STATEMENT OF CASH FLOWS

- Do members have any comments on the IASB's tentative decisions on statement of cash flows?



# TRANSITION PERIOD AND EFFECTIVE DATE

# Transition period and effective date

**x/x/20x1**

**New Accounting Standard issued**

**Transition Period**

**1/1/20x3**

**Effective date**

**Prepare financial statements for year ending 31/12/20x3**

**20x4**

**Financial statements issued**

**Proposal in the ED**

✓ Transition period of **18-24** months

**Proposal in ED**

✓ **All** requirements applied at the **same time** by all entities from the effective date, unless an entity elects to apply the requirements **earlier**

✓ Comparative periods restated

# Transition and effective date

- The mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying the Accounting Standards has sufficient time to prepare for the new requirements.
- The Exposure Draft proposed to require entities to apply the forthcoming Accounting Standard after a transition period of 18-24 months from the date of publication with retrospective application.
- Factors considered by the IASB when making this proposal were:
  - ✓ the proposals affect presentation and disclosure and should be more straightforward to implement than changes affecting recognition and measurement; and
  - ✓ entities would not need to consider periods before the start of the earliest comparative period so restatement of comparatives should be relatively straightforward.

# Key messages from GPF, CMAC and ASAF meetings in March 2023

## GPF

- Gathering information could be a large and time-consuming exercise for entities that do not have the information needed to apply the new requirements readily available.
- Some entities might need time to change budgeting and internal reporting processes in addition to changing their accounting systems.
- Some members are considering early adoption.

## CMAC

- Would like the project to be completed and for entities to apply the new requirements as soon as possible.
- Comparative information for at least one year would be needed for all proposals in the first year of application.

## ASAF

- Entities will need sufficient time to apply the new IFRS Accounting Standard. The minimum period of 18 months is not likely to be sufficient and some entities may need more than two years.
- The impact of the requirements on preparation of comparative information, including comparative information for interim financial reports should be considered when determining the effective date.

# EFFECTIVE DATE AND TRANSITION PERIOD

## EFRAG COMMENT LETTER

- EFRAG recommended that consideration is given to the practicalities and timescales of implementation of IFRS 17 together with any new standards or amendments arising from this project
- EFRAG considered that the proposed time of 18 to 24 months for a retrospective first-time application may not be sufficient, particularly if the IASB decides to proceed with all its proposals, particularly disclosures by nature when presenting by function

## EFRAG SUMMARY REPORT AND RECOMMENDATIONS

- A few participants cautioned the IASB deciding on the effective date of the new Standard given the practicability and timescales of implementation of IFRS 17 and Sustainability Standards in Europe
- In addition, some preparers that are currently listed in the U.S. and/or present operating expenses by function noted that they would need longer for implementing the new requirements

# EFFECTIVE DATE AND TRANSITION PERIOD

## FEEDBACK RECEIVED FROM EFRAG FR TEG-CFSS (March 2023)

- Some members considered that a 24-month transition period may not be long, particularly when considering:
  - the IASB's proposal for entities to present the new subtotals in the condensed financial statements in interim financial reports (including comparatives)
  - the impacts that it will have on digital reporting; and
  - the information used internally by management

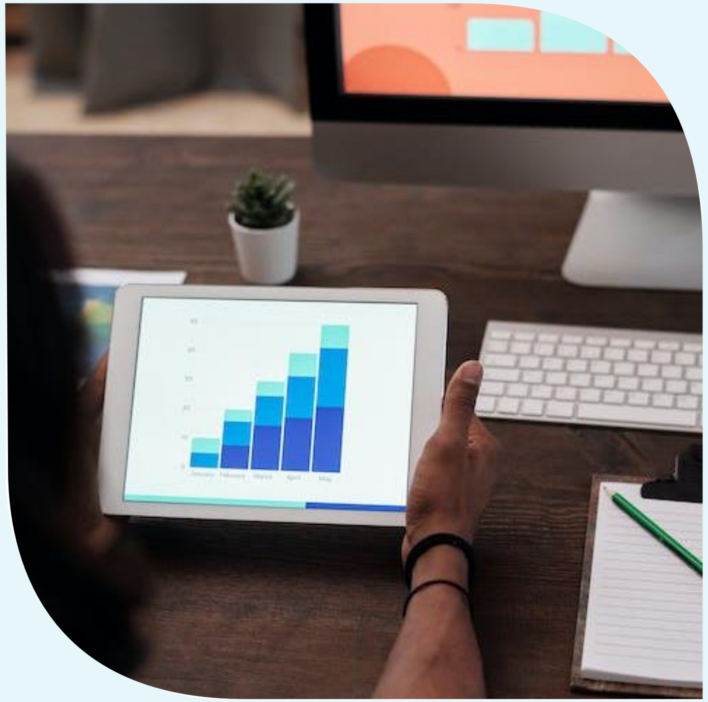
## FEEDBACK RECEIVED FROM EFRAG FRB (March 2023)

- Some members considered that a 24-month transition period may not be long due to the necessary changes in processes and systems. In this regard, the IASB's discussions on disclosures by nature when presenting by function were considered being fundamental. There was also a need for the taxonomy being ready identified
- Some members noted that the costs would be significant to change the systems. Members generally agreed with the IASB's cost-benefit analysis, but highlighted the importance of updating the impact analysis at the end of the IASB's redeliberations

# QUESTIONS FOR EFRAG FR TEG-UP MEMBERS

## EFFECTIVE DATE AND TRANSITION PERIOD

- Do members have any comments on the IASB's proposals on transition and effective date?
- Do members consider it useful to have transition reliefs to help entities adopt the standard early?



# USER COMMUNICATION

# User communication

The IASB plan on providing a range of educational materials, webinars and train-the-trainer sessions in the lead-up to, and after, implementation of the new IFRS Accounting Standard

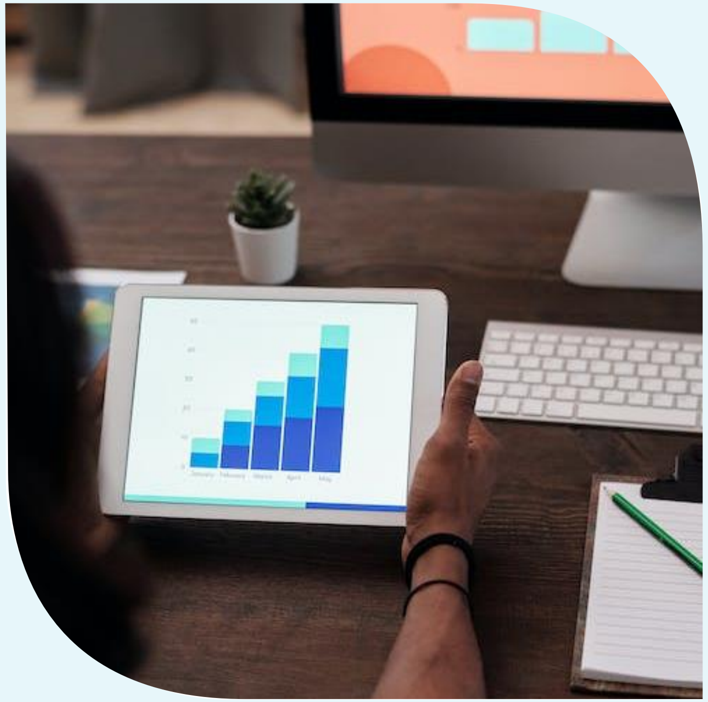
We would appreciate the user panel's views on the most effective way to communicate with users the effect of the new IFRS Accounting Standard

We would also appreciate assistance with train-the-trainer sessions

# QUESTIONS FOR EFRAG FR TEG-UP MEMBERS

## EFFECTIVE WAY OF EDUCATING USERS

- What do members consider is the most effective way to educate users on the new IFRS Accounting Standard?
- Do members have any other comments or suggestions regarding the IASB's educational plan?



# Follow us

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# APPENDIX 1

# Amendments to redeliberation plan after targeted outreach

| Topic | Proposals | Date of redeliberation |
|---|---|---|
| Subtotals | Remaining issues relating to categories, including issues related to IAS 29, classification of income and expenses from associates and joint ventures accounted for using the equity method, off-balance sheet items and hybrid contracts | Future IASB meeting. Off balance sheet items and hybrid contracts discussed in March 2023 (AP 21E) |
| | Remaining issues relating to classification by entities with specified main business activities, including follow up on the accounting policy choice for cash and cash equivalents and whether interest expense on lease liabilities should be included in operating profit when subleasing is a main business activity | March 2023 (AP 21F) |
| Management performance measures | Whether application guidance is required for the rebuttable presumption in the definition of management performance measures | March 2023 (AP 21B) |
| | Remaining issues for disclosure of the tax effect and effect on non-controlling interests | March 2023 (AP21D) |
| | Changes in management performance issues, relationship with segments and other issues | March 2023 (AP21C)<br>Relationship with segments to be redeliberated at a future IASB meeting |
| Disaggregation and other | Remaining issues relating to disclosure of operating expenses by nature | March 2023 (AP21A) |
| | Proposals relating to items labelled 'other' and other general disaggregation topics | January 2023 (AP21C and AP21D) |
| | Proposals relating to other comprehensive income | January 2023 (AP21E) |
| | Remaining proposals for statement of cash flows | January 2023 (AP21F) |