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Primary Financial Statements

Cover Note

Objective

- 1 The objectives of the session are:
 - (a) To provide an overview and discuss the IASB's redeliberations of proposals for the IASB meetings held from May to July, focusing the discussion on:
 - (i) the IASB's tentative decisions held at the **May IASB meeting**, which are related to the classification of income and expenses from associates and JV accounted for using the equity method and MPMS. Please refer to the Agenda Paper **06-02** (Agenda paper already uploaded at the EFRAG FR TEG meeting on 5 July 2023);
 - (ii) the IASB's tentative decisions held at the **June IASB meeting**, which refer to specific remaining issues related to categories and subtotals. Please refer to the Agenda Paper **06-03**;
 - (iii) the IASB's tentative decisions held at the **July IASB meeting**, which are related to the effective date and transition requirements. Please refer to the Agenda Paper **06-03**.
 - (b) To agree with EFRAG FR TEG members whether and how to perform an analysis of a **sample of financial statements** for the purpose of the forthcoming **endorsement process**, consistently with the early-stage analysis attached in the EFRAG Draft Comment Letter. Please refer to the Agenda Paper **06-04**.
- 2 Questions for EFRAG FR TEG members are included in the attached agenda papers 06-02, 06-03 and 06-04.

Background

- 3 In December 2019, the IASB published the [Exposure Draft General Presentation and Disclosures](#) focused on improving how information is communicated in the financial statements, with a focus on information about performance in the statement of profit or loss. The IASB's comment period ended in September 2020. EFRAG sent its [comment letter](#) to the IASB on 2 November 2020.
- 4 In early 2021, the IASB discussed the feedback received, and has since March 2021 made numerous tentative decisions on key aspects of the proposals in response to the feedback received. Some of these tentative decisions result in changes to the proposals included in the ED.
- 5 In September 2022, the IASB launched an outreach on a targeted selection of its tentative decisions through roundtable discussions on specific topics. In addition, EFRAG sought

feedback on supplemental topics where the IASB’s tentative decisions would change the proposals in the ED.

- 6 Also in September 2022, EFRAG FR TEG and EFRAG CFSS members discussed the targeted outreach activities planned by EFRAG and the IASB on a selection of tentative decisions that represented a change to the initial proposals included in the IASB’s ED on this project and added some topics to the outreach programme.
- 7 From October to November 2022 EFRAG organised, jointly with the IASB and in coordination with the national standard setters, a series of roundtables. The summary reports of the roundtables on [24 October \(with Corporates\)](#), [2 November \(with Financial Institutions\)](#), [4 November \(with Corporates\)](#) and [15 November](#) (on-line webinar) have been published on EFRAG’s Website. In addition, EFRAG UP members discussed the aforementioned IASB tentative decisions at their meetings in October and December 2022.
- 8 Finally, the EFRAG Secretariat prepared a [summary report](#) with recommendations that reflect all the feedback received during the roundtables, working groups meetings and other ad-hoc meetings. In addition, the report includes a number of recommendations to the IASB based on the feedback received. The report was submitted to the IASB together with a letter in December 2022.

IASB redeliberations to date and next steps

- 9 Based on the feedback received from the aforementioned targeted outreaches, the IASB redefined its redeliberation plan to address some of the concerns raised by stakeholders. In particular, during the redeliberations from January to July 2023 the IASB discussed the following topics:

Topics already discussed at previous meetings

<p>Targeted outreaches and feedback</p> <p>IASB January 2023</p> <p>EFRAG FR TEG-CFSS meeting on 15 March 2023</p>	<p>The IASB discussed the feedback from the targeted outreach conducted and discussed how to address the comments received, including those that:</p> <ul style="list-style-type: none"> • should be added to the IASB’s redeliberations plan; • should be addressed in the drafting process; and • no further action was required.
<p>Subtotals and categories</p> <p>IASB January and March 2023</p> <p>Joint EFRAG FR TEG-UP meeting on 10 May 2023 and EFRAG FR TEG meeting on 11 May 2023</p>	<p>The IASB discussed issues related to the categories in the statement of profit or loss, including:</p> <ul style="list-style-type: none"> • the accounting policy choice for the classification of income and expenses arising from cash and cash equivalents for entities that provide financing to customers as a main business activity; • classification of interest expense on lease liabilities when subleasing is a main business activity; • classification of foreign exchange differences on other liabilities; and • classification of income and expenses from specific hybrid contracts with host liabilities that arise from transactions that do not involve only the raising of finance and are measured at amortised cost in their entirety.

<p>Management Performance Measures</p> <p>IASB January and March 2023</p> <p>Joint EFRAG FR TEG-UP meeting on 10 May 2023 and EFRAG FR TEG meeting on 11 May 2023</p>	<p>On management performance measures, the IASB discussed:</p> <ul style="list-style-type: none"> • whether it should develop further application guidance for the proposed rebuttable presumption in the definition of MPM; • the relationship between MPMs and disclosure requirements according to IAS 8 and IAS 34; • whether a wider range of approaches for calculating the income tax effect would improve the balance between costs and benefits; and • whether the IASB should require specific disclosure requirements for the approach(es) an entity uses to calculate the income tax effect.
<p>Disaggregation and other issues</p> <p>IASB January and March 2023</p> <p>Joint EFRAG FR TEG-UP meeting on 10 May 2023 and EFRAG FR TEG meeting on 11 May 2023</p>	<p>The IASB discussed:</p> <ul style="list-style-type: none"> • disclosure of operating expenses by nature in the notes (revised approach); • the relationship between the general disaggregation requirements in the ED and the specific presentation and disclosure requirements in other IFRS Accounting Standards; • the implications of some of the IASB’s tentative decisions for the general requirement to disaggregate material information; and • possible further requirements and application guidance relating to the general disaggregation requirements. <p>Furthermore, the IASB discussed:</p> <ul style="list-style-type: none"> • the classification of interest received in the statement of cash flows for entities other than those with specified main business activities; • the classification of interest received, interest paid, and dividends received for entities with specified main business activities; and • the withdrawal of the proposal to relabel the two categories of other comprehensive income.

Topics to be discussed at this meeting:

<p>Subtotals and categories</p> <p>IASB May 2023</p> <p><i>For further details please refer to the Agenda paper 06-02</i></p>	<p>The IASB discussed the classification in the statement of profit or loss of income and expenses from investments in associates and joint ventures accounted for using the equity method (in the investing category) and of the related cash flows (in a single category).</p> <p>Based on the IASB’s tentative decision to date:</p> <ul style="list-style-type: none"> • An entity could present the specified subtotal “operating profit or loss and income and expenses
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	<p>from investments accounted for using the equity method” when it is necessary for understanding the performance of the entity and label it in a way that faithfully represents what is included in it;</p> <ul style="list-style-type: none"> • If an entity uses this subtotal to communicate its financial performance in its public communications, it would not meet the definition of an MPM. However, if an entity used a subtotal that included only the income and expenses from selected associates and joint ventures (e.g., those related to insurance contracts only), that subtotal would be an MPM.
<p>IASB June 2023 For further details please refer to the Agenda paper 06-02</p>	<p>The IASB discussed the classification in the statement of profit or loss of:</p> <ul style="list-style-type: none"> • income and expenses arising on the derecognition of assets or liabilities (for example, the disposal of a consolidated subsidiary); and • income and expenses arising from transactions or other events that result in a change in the category in which an entity classifies income and expenses from assets or liabilities, without affecting the recognition of the assets or liabilities (for example, transfers in and out of investment property). <p>Furthermore, the IASB tentatively decided to confirm the prohibition on the presentation of the subtotal ‘profit before financing and income tax’ when an entity that provides financing to customers as a main business activity classifies in the operating category all income and expenses from liabilities that arise from transactions that involve only the raising of finance.</p>
<p>Management Performance Measures IASB May 2023 For further details please refer to the Agenda paper 06-02</p>	<p>The IASB discussed the remaining issues related to the relationship between MPMs and IFRS 8 <i>Operating Segments</i>.</p>
<p>Disaggregation and other issues IASB June 2023 For further details please refer to the Agenda paper 06-03</p>	<p>The IASB discussed:</p> <ul style="list-style-type: none"> • The classification (in the operating category) of the gain or loss on the net monetary position recognised applying IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>; and • The classification (in the income taxes category) of foreign exchange differences related to assets and liabilities on income taxes recognised applying IAS 12 <i>Income Taxes</i>.
<p>Other issues</p>	<p>The IASB discussed the:</p>

<p>IASB July 2023</p> <p>For further details please refer to the Agenda paper 06-03</p>	<ul style="list-style-type: none">• due process requirements and the re-exposure criteria (the IASB decided to issue the Standard without re-exposing the proposals and to start the balloting process);• effective date (1 January 2027) and transition requirements (subject to drafting);
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- 10 In July 2023 the IASB announced that it has concluded its decision-making on the project refining its original proposals in the ED published in 2019 to reflect stakeholder feedback. Therefore, The IASB will begin the balloting process for the Standard ('IFRS X') and discuss in a future meeting any sweep issues that arise in the drafting process. The issuance of IFRS X is expected in the first half of 2024.
- 11 Over the next months, the IASB staff is planning to provide some educational sessions to explain the main impacts arising from IFRS X.

EFRAG's recent activities and next steps

- 12 On 5-6 September EFRAG FIWG and IAWG members discussed some of the Illustrative Examples that the IASB is planning to include in IFRS X relating the new structure of the statement of profit or loss, MPMs and disclosure of specific operating expenses when presenting by function. Members generally provided positive feedback on their usefulness supporting preparers in understanding the new requirements. However, some minor remarks were given and the IASB was open to reflect them in the final version. For more details, please refer to the meetings' chairman reports attached in the agenda papers 03-02 and 03-03.
- 13 The EFRAG Secretariat will continue to monitor the IASB's discussions and, based on the EFRAG FR TEG members' recommendation, will start the analysis of a sample of financial statements in light of the IASB's tentative decisions to date. This is to allow EFRAG to support its endorsement advice by an impact analysis, including a cost-benefit analysis and an analysis of broader economic impacts.

Agenda Papers

- 14 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 06-02 – PFS_Issues paper_Update on the latest IASB decisions in May (Agenda paper already uploaded at the EFRAG FR TEG meeting on 5 July 2023);
 - (b) Agenda paper 06-03 – PFS_Issues paper_Update on the latest IASB decisions in June and July; and
 - (c) Agenda paper 06-04 – PFS_EFRAG research activity on 2022 Financial Statements.