

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG. 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 FRB or EFRAG FR TEG. 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 FRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

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### Cover Note

#### Objective

- 1 The objectives of the session are to:
  - (a) obtain EFRAG FR TEG views on a sweep issue related to the application of the requirements for MPMs to specific measures; and
  - (b) allow EFRAG FR TEG members to provide their views about other sweep issues discussed by the IASB in October and November 2023 listed in the Appendix A and B.

#### Structure of the session

- 2 This cover note includes:
  - (a) A summary of the EFRAG FR TEG member's concerns raised at the EFRAG FR TEG meeting on 29 November about the IASB sweep issues related to MPMs;
  - (b) A summary of the IASB staff analysis and recommendation to the IASB on this topic, including the comments provided by the IASB members during the November IASB meeting on it;
  - (c) in the **Appendix A**, the list of the IASB sweep issues already discussed by EFRAG FR TEG at the November meeting; and
  - (d) in the **Appendix B**, the list of the other IASB sweep issues not yet discussed by EFRAG FR TEG.

#### EFRAG FR TEG previous discussion

- 3 On 29 November 2023 EFRAG FR TEG members discussed and provided their views on a sample of selected sweep issues as listed in the Appendix A, including some sweep issues related to MPMs (please also refer to the agenda paper 02-02 of EFRAG FR TEG meeting in November [here](#) for further details).
- 4 In particular, the EFRAG Secretariat noted that one EFRAG FR TEG member expressed concerns about the IASB discussion held in November relating the application of the

requirements for MPMs to specific measures (please refer to sweep issue 4(e) in the Appendix A for further information) and asked to further discuss this issue.

- 5 To facilitate the discussion among the EFRAG FR TEG members, the following paragraphs includes a summary of the IASB staff analysis and recommendation and of the IASB members' comments on this topic.

### Key discussion points for the session

#### *Sweep issue related to MPM*

- 6 As included at page 19 of November IASB agenda paper A21B ([here](#)), reviewers of the pre-ballot draft of IFRS 18 asked for clarification on how an entity would apply the requirements for MPMs to specific measures, such as a measure that includes only income and expenses classified in the investing and financing categories. As part of its analysis, the IASB staff noted that similar application questions may arise for other measures and that, in some instances, an entity may consider rebutting the presumption that a measure included in public communications represents management's view. The IASB staff decided to not make any drafting changes in response to this feedback and recommended the IASB monitor application of the MPMs disclosure requirements as part of its monitoring activities for implementation of IFRS 18.
- 7 During the discussion, some IASB members provided the following comments:
  - (a) One member highlighted that in many jurisdictions there should be some measures, such as the "Net debt cost", for which practical challenges could arise in determining which is the most directly comparable subtotal or total to which such a measure has to be reconciled. Therefore, this member called for clear guidance to support entities in the application of current definition of MPMs.
  - (b) Another member noted that, also in these circumstances, an entity should assess whether the presumption can be rebutted (e.g., whether a measure does not communicate management's view of the entity's performance when it is not communicated with prominence in entity's public communications).

#### **Questions for EFRAG FR TEG**

- 8 Do EFRAG FR TEG members have any additional comment about the sweep issues already discussed at the November meeting and listed in the Appendix A, including those about MPMs as detailed in paragraphs 6-7 above? Do other EFRAG FR TEG members have any concern relating the application of the requirements for MPMs to specific measures (e.g., net debt cost)?
- 9 Do EFRAG FR TEG members have any additional comment or recommendation about the sweep issues not yet discussed by EFRAG FR TEG meeting and listed in the Appendix B?

### Next steps

- 10 The EFRAG Secretariat will continue to monitor the IASB's discussions on the project.

Appendix A – List of sweep issues identified by the IASB and already discussed by EFRAG FR TEG on 29 November ([here](#))

#	Sweep issue description	IASB's tentative decision (October and November 2023)	Previous EFRAG's position (EFRAG Comment Letter and/or Summary report and recommendation)
<b>Sweep issues related to subtotals and categories in the statement of profit or loss</b>			
1	Scope of income and expenses classified in the <u>investing category</u> – <u>classification of incremental expenses</u> directly attributable to the acquisition and disposal of the specified assets (investing category) and to the issue and disposal of the liabilities (financing category) [ <a href="#">November 21A</a> ].	<p>The IASB decided to:</p> <p>(a) clarify that income and expenses from assets that an entity classifies in the investing category include also the incremental expenses directly attributable to the acquisition and disposal of the specified assets; and</p> <p>(b) clarify that the income and expenses from liabilities that arise from transactions that involve only the raising of finance comprise also the incremental expenses directly attributable to the issue and disposal of the liabilities, for example transaction costs.</p>	<p>In its <a href="#">FCL</a>, EFRAG considered that the definition of the investing category is not sufficiently clear to ensure consistent and comparable application of incremental expenses. In addition, EFRAG noted that it would be useful to clarify whether incremental expenses related to financing activities should also be in the financing category, by symmetry with expenses relating to investing activities.</p> <p>In EFRAG <a href="#">Summary Report and Recommendations</a>, preparers subsequently confirmed that the classification of incremental expenses was not clear, particularly when considering paragraph B36(b) of the ED, which would require “debt extinguishment and debt restructuring expenses” to be classified in the financing category rather than in the operating category consistently with other incremental costs.</p>

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#	Sweep issue description	IASB's tentative decision (October and November 2023)	Previous EFRAG's position (EFRAG Comment Letter and/or Summary report and recommendation)
2	Clarification about the classification of income and expenses from specific hybrid contracts (e.g., those with host liabilities that do not arise from transaction that only involve the raising of finance) by entities that provide financing to customers as a main business activity <a href="#">[October]</a> .	In drafting, the IASB has not made these instruments eligible for classification in the operating category by an entity that provides financing to customers as a main business activity	In its <a href="#">Summary Report and Recommendations</a> , EFRAG recommended the IASB to clarify and provide additional application guidance related to the classification of income and expenses from hybrid contracts (e.g., illustrative examples and/or flowchart). When discussing the classification of hybrid contracts, preparers (particularly from the banking industry) asked for more clarity on the meaning of the IASB' tentative decision on classifying “in the same way as income and expenses on other liabilities”. More specifically, it was unclear whether the “other liabilities” were related to other liabilities that should be always presented outside of the operating category (as the accounting policy choice in paragraph 51 of the ED would not apply).
3	Clarification about the classification (in the financing category) of gains and losses on a derivative not used to manage identified risks and related to a transaction that involves only the raising of financing by entities that provide financing to customers as a main business activity and whether the accounting policy choice to reclassify these income and expenses in the operating category would apply <a href="#">[October]</a> .	In drafting the IASB clarified that the accounting policy choice for entities that provide financing to customers as a main business activity also applied to gains and losses on derivatives not used to manage identified risks and related to a transaction that involves only the raising of financing.	In its FCL and Summary Report, EFRAG did not express any concerns on this specific issue.  However, in its <a href="#">Summary Report and Recommendations</a> , EFRAG recommended that the IASB should clarify its proposal related to situations that would involve grossing up gains and losses and consider alternative solutions, including revisiting the default presentation in the operating category, to mitigate the issue of corporates related to bringing the impact of derivatives into the operating category, which could bring significant volatility to this category.

#	Sweep issue description	IASB’s tentative decision (October and November 2023)	Previous EFRAG’s position (EFRAG Comment Letter and/or Summary report and recommendation)
<b>Sweep issues related to Management-defined Performance Measures (MPMs)</b>			
4	<p>Minor sweep issues related to MPMs:</p> <p>(a) Specified subtotal comprising operating profit and all income and expenses in the investing category <a href="#">[October]</a>.</p> <p>(b) Disclosure of changes to MPMs <a href="#">[November 21B]</a>.</p> <p>(c) Totals or subtotals required to be disclosed by other IFRS Accounting Standards <a href="#">[November 21B]</a>.</p> <p>(d) Timing of public communications <a href="#">[November 21B]</a>.</p> <p>(e) Application of the requirements for MPMs to specific measures <a href="#">[November 21B]</a>.</p> <p>(f) Use of the term ‘reasonable and supportable information’ in the rebuttable presumption for MPMs <a href="#">[November 21B]</a>.</p>	<p>The IASB discussed and confirmed the drafting approaches for these minor sweep issues.</p> <p>Regarding the timing of public communications, the IASB clarified that when an entity routinely issues public communications containing performance measures after the financial statements are authorised for issue, an entity shall consider the measures it included in public communications related to the previous reporting period to identify MPMs for the current period, unless there is evidence that indicates a measure will not be included in the public communications to be issued relating to the current reporting period. Furthermore, if an entity introduces a new measure in public communications issued after the date the financial statements are authorised for issue, it would apply the requirements for management-defined performance measures in the following period unless there is evidence that indicates otherwise.</p> <p>Regarding the use of the term ‘reasonable and supportable information’, the IASB decided to</p>	<p>In its <a href="#">FCL</a> and in its <a href="#">Summary Report and Recommendations</a> EFRAG expressed, among others, concerns related to the extent that the definition of a MPM applies, especially for highly regulated entities, and the applicability of the rebuttable presumption for all the significant measures communicated for regulatory purposes (e.g., subtotals of subtotals and subtotals merely reflecting reclassification of line items).</p>

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#	Sweep issue description	IASB’s tentative decision (October and November 2023)	Previous EFRAG’s position (EFRAG Comment Letter and/or Summary report and recommendation)
		the IASB aligned the use of ‘reasonable and supportable information’ in paragraph B5.5.20 of IFRS 9 Financial Instruments.	
<b>Sweep issues related to aggregation and disaggregation</b>			
5	Additional clarification about the meaning of the term ‘Useful structured summary’ and its relationship with the materiality assessment and other requirements related to classification and presentation in the primary financial statements. <a href="#">[November 21B]</a>	The IASB discussed and clarified the concept of “useful structured summary” and how it fits within the materiality process, removed unnecessary complexity in the requirements and preserved the IASB’s objective of emphasising the importance of disaggregation of the operating category in the statement of profit or loss.	Not suggested by EFRAG.
6	Disclosure of specified expenses by nature: (a) scope of entities required to provide the disclosure and scope of line items subject to the requirement <a href="#">[October]</a> ; and (b) scope of employee benefits <a href="#">[October]</a>	The IASB tentatively decided to confirm that such an entity will be required to disclose in a single note the amounts for these expenses that are included in each line item in the operating category only. In addition, the entity will be required to include in the same note two disclosures for each specified expense: <ul style="list-style-type: none"> <li>• the total for the specified expenses by nature, already required in IFRS Accounting Standards; and</li> <li>• an explanation of which line items outside the operating category include any</li> </ul>	In its <a href="#">Summary Report and Recommendations</a> , EFRAG considered the IASB’s tentative decision requiring an entity to disclose an analysis of the specified operating expenses by nature when presenting by function a compromise with the objective of achieving a better balance of the related costs and benefits

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#	Sweep issue description	IASB's tentative decision (October and November 2023)	Previous EFRAG's position (EFRAG Comment Letter and/or Summary report and recommendation)
		<p>difference between the total of the amounts included in the line items in the operating category and the total described in (a). Such an explanation is already required by a previous tentative decision in September 2021 (Agenda Paper 21D) to provide a qualitative explanation of the line item in which disclosed items are included.</p>	
<b>Sweep issues related to transition</b>			
7	<p>Transitional relief for additional comparative information [<a href="#">October</a>].</p>	<p>The IASB tentatively decided to provide no transitional relief from retrospective application of IFRS 18 for any earlier periods than the annual period immediately preceding the initial period of application.</p>	<p>Not suggested by EFRAG.</p>

**Appendix B - Other sweep issues identified by the IASB that have not been further discussed by EFRAG FR TEG yet**

#	Sweep issue description	IASB’s tentative decision (October and November 2023)	Previous EFRAG’s position (EFRAG Comment Letter and/or Summary report and recommendation)
<b>Sweep issues related to subtotals and categories in the statement of profit or loss</b>			
1	Alignment of the accounting policy choices (i.e., for the classification of income and expenses from cash and cash equivalents and income and expenses from liabilities that arise from transactions that involve only the raising of finance) for entities that provide financing to customers as a main business activity <a href="#">[October]</a> .	To clarify that an entity that provides financing to customers as a main business activity but does not invest in financial assets as a main business activity is required to select the same accounting policy choice for classification of income and expenses from cash and cash equivalents as it does for income and expenses from liabilities that arise from transactions that involve only the raising of finance.	Not suggested by EFRAG.
2	Classification of income and expenses on assets or disposal groups held for sale <a href="#">[October]</a> .	In drafting, the IASB decided to require an entity to classify in the investing category income and expenses arising from an asset held for sale (and disposal group held for sale), if the asset (or all assets other than income tax assets in the disposal group) generated income and expenses that were classified in the investing category immediately before the classification as held for sale.	Not suggested by EFRAG.
3	Classification of expenses arising from increases in the present value of the costs to sell a non-current asset (or disposal group) held for sale that arise from the passage of time <a href="#">[October]</a> .	In drafting, the IASB removed expenses arising from increases in the present value of the costs to sell a non-current asset (or disposal group) held for sale that arise from the passage of time from the examples of income	Not suggested by EFRAG.



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#	Sweep issue description	IASB's tentative decision (October and November 2023)	Previous EFRAG's position (EFRAG Comment Letter and/or Summary report and recommendation)
		and expenses which would be classified in the financing category.	
4	Transition requirements for investments in associates or joint ventures measured at fair value through profit or loss in accordance with IFRS 9 <i>Financial Instruments</i> in the entity's separate financial statements [ <a href="#">November 21A</a> ].	In drafting, the IASB decided to clarify that if an entity changes its election at the date of initial application of IFRS 18 to measure an investment in an associate or joint venture at fair value through profit or loss in accordance with IFRS 9, it shall also account for those investments in the same way in its separate financial statements as required by paragraph 11 of IAS 27.	Not suggested by EFRAG.
5	The financial assets an entity invests in that will require the classification of income and expenses from cash and cash equivalents in the operating category [ <a href="#">November 21A</a> ].	In drafting, the IASB clarified that an entity does not include investments in subsidiaries, associates and joint ventures accounted for using the equity method in the scope of financial assets used to determine if an entity invests in financial assets as a main business activity.	Not suggested by EFRAG.
6	Income and expenses on liabilities arising from issued investment contracts with participation features recognised applying IFRS 9 [ <a href="#">November 21A</a> ].	In drafting, the IASB decided to clarify the phrase 'investment contracts with participation features recognised applying IFRS 9' in drafting of IFRS 18, making use of examples of such investment contracts.	Not suggested by EFRAG.
7	Classification of foreign exchange differences on liabilities that arise from transactions that do not involve only the raising of finance that are	In drafting, the IASB decided to clarify that an entity shall not allocate foreign exchange differences on such liabilities between categories (but in a single category) and if an entity uses the undue cost or effort relief it will	In its <a href="#">FCL</a> , EFRAG asked for more guidance and examples on the classification of foreign exchange differences. In particular, feedback from preparers suggested that in some cases

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	denominated in a foreign currency [ <a href="#">November 21A</a> ].	classify them in the operating category. The IASB also decided to clarify that an entity is not required to classify the foreign exchange differences on all such liabilities in the same category. However, an entity is required to classify foreign exchange differences on such liabilities that have similar characteristics in the same category.	tracking foreign exchange differences may outweigh the benefits of classifying the items in the sections of the statement(s) of financial performance. Thus, EFRAG considered that the IASB should consider further the cost/benefit profile of this proposal.
8	Aspects related to the assessment of specified main business activities [ <a href="#">November 21A</a> ], including: <ul style="list-style-type: none"> <li data-bbox="219 799 795 938">(a) timing to implement changes in the outcome of the assessment of specified main business activities when the change occurs during the period;</li> <li data-bbox="219 959 795 1027">(b) disclosure of a change in the assessment of a specified main business activity;</li> <li data-bbox="219 1048 795 1117">(c) disclosure of specified main business activities; and</li> <li data-bbox="219 1137 795 1203">(d) assessment of specified main business activities.</li> </ul>	The IASB discussed and confirmed the drafting approaches for these minor sweep issues.	In its FCL, EFRAG recommended the IASB to clarify the notion of an entity's main business activity, including, when an entity is permitted or even required to reassess what constitutes its main business activities.
9	B32 of the ED - Application guidance for income and expenses from financial assets arising from	To add application guidance that provides examples of assets that generate returns individually and largely independently of the other resources of the entity and	Not suggested by EFRAG.

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#	Sweep issue description	IASB's tentative decision (October and November 2023)	Previous EFRAG's position (EFRAG Comment Letter and/or Summary report and recommendation)
	<p>providing financing to customers (directly to be classified in operating).</p> <p>Further clarification on income and expenses from which types of financial assets (other than cash and cash equivalents and investments in associates, JV and subsidiaries) are required to be classified directly in the operating category (e.g., financial assets arising from providing financing to customers) and the income and expenses from which types of financial assets are required to be classified in the investing category [<a href="#">November 21A</a>].</p>	<p>those that do not, including loans and receivables recognised from providing goods and services to customers. This application guidance would replace the application guidance on classification of income and expenses from financial assets arising from providing financing to customers (<a href="#">July 2022</a> IASB's tentative decision).</p>	
<b>Sweep issues related to aggregation and disaggregation</b>			
10	<p>Additional clarification about the presentation of cost of sales [<a href="#">October</a>]</p>	<p>The IASB tentatively decided to require an entity to present a line item for cost of sales separately from any other expenses classified by function in the statement of profit or loss only if the entity classifies operating expenses by function that include cost of sales.</p>	<p>EFRAG did not express any concerns on this specific issue.</p> <p>However, in order to enhance comparability and understandability of the gross profit from sale of goods item, in its <a href="#">FCL</a> EFRAG proposed the IASB to develop a definition of the cost of sales line item (for example (i) by defining whether this line item refers to past, current or future sales, (ii) whether amortisation of capitalised development</p>

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			costs are included) and required entities to disclose how that line item is composed.

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#	Sweep issue description	IASB’s tentative decision (October and November 2023)	Previous EFRAG’s position (EFRAG Comment Letter and/or Summary report and recommendation)
11	Definition of a hierarchy of characteristics for the statement of financial position <a href="#">[October]</a>	<p>The IASB tentatively decided to clarify that for the statement of financial position an entity uses:</p> <ul style="list-style-type: none"> <li>• the characteristics of duration and timing of recovery and settlement to classify assets and liabilities as either current or non-current and the characteristic of liquidity to classify assets and liabilities by order of liquidity.</li> <li>• the characteristics of nature and function to aggregate assets and liabilities into separate line items. Other characteristics, like duration, liquidity, measurement basis, type and tax effects, assist an entity identifying the nature or function of the assets and liabilities.</li> </ul>	Not suggested by EFRAG.
12	Requirement to present separately each material class of similar items in IAS 1 <i>Presentation of Financial Statements</i> <a href="#">[October]</a> .	<p>In drafting, the IASB decided not to include a reference to material classes. However, the IASB added two requirements to:</p> <p>(a) disclose any disaggregation of items if the resulting information is material; and</p> <p>(b) present items if necessary to fulfil the role of the primary financial statements to provide a useful structured summary of an entity’s assets, liabilities, equity, income and expenses.</p>	Not suggested by EFRAG.

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#	Sweep issue description	IASB's tentative decision (October and November 2023)	Previous EFRAG's position (EFRAG Comment Letter and/or Summary report and recommendation)
13	Clarification about the specific disclosure requirement for an aggregation of items for which information is not material [ <a href="#">November 21B</a> ]	In drafting, the IASB decided to clarify that material information is provided by the explanation that the aggregation does not contain material information. This will help to explain that the disclosure requirement does not require entities to disclose information that is not material.	In its <a href="#">FCL</a> , EFRAG welcomed the IASB's efforts to improve the general requirements on disaggregation as a complement to the created additional subtotals in the statement of profit or loss. However, EFRAG was of the view that some further clarifications on the principle of aggregation were necessary, also relating how an entity can avoid that the application of the proposals in paragraphs 27-28 of the ED leads to presentation and disclosure of immaterial items obscuring the presentation of relevant information.
<b>Sweep issues related to transition</b>			
14	Requirement to disclose a reconciliation of the statement of profit or loss in interim financial statements [ <a href="#">October</a> ]	In drafting, the IASB clarified that the reconciliation should be required for both the comparable current interim period and the comparable year-to-date period of the immediately preceding financial year.	Not suggested by EFRAG.
15	Whether to provide relief for paragraph 28(g)* of IAS 8 <i>Accounting Policies, changes in Accounting Estimates and Errors</i> in transition to IFRS 18 [ <a href="#">October</a> ].	As IFRS 18 would not affect the amount of each asset, liability, equity, income and expense, the IASB decided that such a relief would be unnecessary.	Not suggested by EFRAG.

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	*it requires an entity to disclose the amount of the adjustment relating to periods before those presented, to the extent practicable.		
<b>Sweep issues related to other topics</b>			
16	Relationship between the requirements of IFRS 14 <i>Regulatory Deferral Accounts</i> with the requirements in IFRS 18 and amendments to IAS 33 <i>Earnings per Share</i> [October].	The IASB decided on a consequential amendment to IFRS 14 that an entity applies the requirements on presentation of IFRS 14 to its deferral account balances and net movements in those balances regardless of the requirements in IFRS 18, and also applies the requirement in IFRS 14 to present the specified additional basic and diluted earnings per share amounts regardless of the amendments to IAS 33.	Not suggested by EFRAG.
17	Consequential amendment to IFRS 8 <i>Operating Segments</i> [November 21B].	The IASB discussed and confirmed the drafting approaches for this minor sweep issue.	Not suggested by EFRAG.
18	Definition of IFRS Accounting Standards [November 21B].	The IASB decided to clarify the definition of IFRS Accounting Standards.	Not suggested by EFRAG.