European Financial Reporting Advisory Group

~~Draft~~EFRAG Comment Letter

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

[XX Month 2020]

Dear Mr Hoogervorst,

Re: IASB ED/2019/7 *General Presentation and Disclosures*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on Exposure Draft General Presentation and Disclosures, issued by the IASB on 17 December 2019 (the ED).

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Standards in the European Union and European Economic Area.

EFRAG welcomes that the IASB's ED is focused on improving how information is communicated in the financial statements. This project responds to a strong demand from users of financial statements and respondents to the IASB 2015 Agenda Consultation to undertake a project on primary financial statements. EFRAG particularly welcome the IASB's proposals to address this request in an Exposure Draft rather than in a Discussion Paper.

EFRAG also agrees with the IASB's proposal to update current requirements through the issuance of a new IFRS Standard, even if the IASB focused on information about performance in the statement of profit or loss. Such an approach has the benefit of highlighting the importance and impact of the proposed changes on the presentation of financial statements across different industries.

EFRAG highlights that the main challenge of this project is to strike the right balance between satisfying the needs of users by providing a more harmonised structure and content of the statement(s) of financial performance, while also allowing management to convey its views of the ~~company's~~entity's financial performance.

Summary of EFRAG's views on the ED

New subtotals and categories in the statement of profit or loss

In general, EFRAG welcomes the IASB's efforts to improve the structure and content of primary financial statements, as currently there is diversity in practice on the presentation of subtotals. In particular, EFRAG supports the IASB's proposals to present an operating, investing and financing category, subject to materiality considerations, as they have the potential benefit of reducing diversity in practice and improving comparability of financial statements. However, EFRAG considers that:

- it is key to have clear guidance on the notion of the 'entity's main business activity', or in the course of the entity's main business activity' (please see EFRAG's reply to Question 3 in Appendix 1);

- the IASB should consider, as part of the effects of these proposals, the interaction of the IASB proposals with existing regulatory frameworks on the presentation of financial statements;
- both the statement of financial performance and the statement of cash flows will have three different categories with similar labelling (operating, investing, and financing) even if they are not aligned. As further described below, EFRAG would encourage a separate project on IAS 7 to improve consistency with the new content and structure of the statement of profit or loss. As long as the two statements are not aligned, EFRAG considers that it would be useful to use a different labelling in the two statements to avoid confusion;
- the 'free' accounting policy choice in paragraph 51(b) of the ED (for entities that provide financing to customers) may result in the loss of relevant information for users, in particular when used by non-financial institutions (e.g. manufacturer providing financing to customers); ~~and~~
- it would be useful to consider whether 'incremental expenses' related to financing activities should also be in the financing category, by symmetry, with expenses relating to investing activities~~.~~;
- it would be useful to further consider the presentation of operating profit or loss when one or more line items between categories are immaterial;
- the IASB should further consider how its proposals should be applied in specific circumstances, including the interaction of the IASB's proposals with IFRS 17 and IFRS 9;
- the IASB should provide more guidance and example on the classification of foreign exchange differences and of fair value gains and losses on derivatives and hedging instruments to ease implementation; and

Integral and non-integral associates and joint ventures

~~EFRAG considers that providing a distinction between integral and non-integral associates and joint ventures will help users of financial statements to easily distinguish between associates and joint ventures that are closely related to the entity's main business activities and those that are not.~~ EFRAG's research[1], similar to the findings of other recent studies, has shown that there is diversity in practice on the presentation of the share of profit or loss of associates and joint ventures, which was presented either before or after the subtotal 'operating profit or loss' by the majority of the entities analysed by EFRAG in its early stage analysis. Thus, the IASB's proposal to ~~split between 'integral' and 'non-integral'~~require a subtotal of operating profit that excludes this component has the potential of enhancing comparability. ~~However, EFRAG highlights that such presentation requirements will involve significant judgements and assumptions and they will need to be tested in practice.~~

EFRAG welcomes the IASB's efforts to make a distinction between integral and non-integral associates and joint ventures as it would provide relevant information to users of financial statements and help them to easily distinguish between associates and joint ventures that are closely related to the entity's main business activities and those that are not.

However, EFRAG is concerned that the proposed separation of integral and non-integral investments would involve significant degree of judgement, which would hinder comparability and relevance. With this in mind, EFRAG proposes the IASB to clarify or

[1] The results of this EFRAG's research are presented in Appendix 2 and form the basis for Early Stage Analysis (ESA).

revisit the concept of integral, including its adjacent definitions of 'main business activity', 'generate a return individually and largely independently of the other assets of the entity' and 'significant interdependency'. EFRAG suggests, should the IASB go forward with the proposed definition, to expand the new paragraph 20D of IFRS 12 to widen the scope, to include additional indicators and more examples with the objective of reducing the level of judgement involved.

EFRAG considers that the separate information about the share of profit or loss of integral and non-integral associates and joint ventures is useful, however does not support the IASB proposal to require an entity to present on the face of the statement of profit or loss a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures. Instead, EFRAG suggests to present the results of all associates and joint ventures as a separate line item below and close to the operating profit subtotal on the face of the profit or loss and to require to present a split between "integral" and "non-integral" in the notes to the financial statements.

EFRAG also recommends clarifying how~~EFRAG highlights that the IASB's proposals would also apply to separate financial statements. In particular,~~ the IASB's proposals would apply to associates and joint ventures in the separate financial statements~~, which may in some cases raise questions about the applicability of the proposed definitions. EFRAG considers that there is a need for the IASB to further discuss how its proposals in general would apply to the separate financial statements, including the challenges that may arise in practice to those who prepare and use separate financial statements.~~.

Roles of the primary financial statements and the notes, aggregation, and disaggregation

EFRAG welcomes the IASB's proposal to describe the respective roles of primary financial statements, the notes and the proposal for principles, and the general requirements on the aggregation and disaggregation, as a complement to the additional subtotals in the statement of profit or loss. EFRAG notes that having the principles and general requirements on aggregation and disaggregation of information in the financial statements, within a single place in the new standard, will improve clarity and consistency. Notwithstanding the above, EFRAG is of the view some further clarifications on the principle of aggregation are necessary.

Analysis of operating expenses

EFRAG supports the IASB's proposal to continue ~~**to require**~~requiring entities to present an analysis of expenses using either by-function or by-nature method, based on whichever method provides the most useful information to ~~**users of financial statements. However, EFRAG suggests that the IASB clarifies that paragraph B47 of the ED allows, or even requires, a mixed basis of presentation when an entity presents line items under paragraphs 65 and B15 of the ED.**~~the users of financial statements.

EFRAG believes that it would be useful if the IASB clarified its primary objective for the presentation of expenses by nature or by function, including the role and scope of a mixed basis of presentation (i.e. clearly state what a mixed presentation basis is and when such mix presentation is allowed).

EFRAG is also of the view further guidance would be useful in a number of areas including to better describe the two methods and to provide a definition of presentation by-function. In the light of preparer's concerns regarding the disclosure on a by-nature basis in the notes when presenting by-function on the face, EFRAG recommends the IASB to further investigate the cost/benefit profile of the requirement and, if appropriate, consider focusing on which information is most needed by users.

Unusual income and expenses

EFRAG welcomes the IASB's efforts to define unusual income and expenses and to require entities to disclose such items in the notes, as such disclosure provides useful information to users of financial statements. However, EFRAG highlights that the definition of unusual items seems to be rather narrow, as it only focuses on whether expenses/income will occur in the future. Instead, EFRAG suggests the IASB considers not only items that 'will not arise for several future annual reporting periods' (as expressed in the ED) but also items that presently occur in the business, but only for a limited period of time (e.g. those identified in paragraph B15 of the ED such as restructuring costs).

EFRAG also calls for the IASB to provide more implementation guidance for preparers. In particular, more guidance on the terms 'several future annual reporting periods' and 'predictive value', which may involve significant judgement, and more guidance how to report unusual amounts. Interactions with IFRS 8 and with the MPM proposal should be further considered as well.

Management performance measures ('MPMs')

EFRAG agrees that non-IFRS measures are often used in practice and additional guidance could bring more transparency and consistency on their use. EFRAG therefore welcomes the IASB's efforts to provide guidance on MPMs. ~~However, EFRAG highlights a number of challenges in regard to the IASB's proposed scope and invites the IASB to consider a narrower alternative scope.~~ However, EFRAG considers that the definition of MPM should be extended to include also measures of financial position and ratios and not be limited to subtotals presented on the face of the statement of profit or loss. In addition, EFRAG invites the IASB to consider making the definition of public communication narrower, limiting the scope to the MPMs presented in the public communications released jointly with the annual or interim reports. Furthermore, EFRAG suggests excluding from the scope the performance measures required by regulators, and to extend the scope to cover possible MPMs presented in financial statements but not in other public communications.

EFRAG also suggests the IASB to consider whether a change of the formula of an MPM constitutes a change of an accounting policy in accordance with the guidance of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

EFRAG also considers that the IASB has not sufficiently articulated the link between MPMs and IFRS 8 *Operating Segments* and suggests the IASB to require an explanation of how MPMs interact with performance measures already presented under IFRS 8.

In regard to the proposed amendments to IAS 34 *Interim Financial Reporting*, EFRAG has some concerns about requiring a reconciliation of the MPMs to the most directly comparable subtotal or total specified in IFRS Standards as such reconciliations, including the tax effect and NCI effect, can be costly, particularly when preparing interim financial statements at consolidated level (e.g. tax includes income tax of different subsidiaries and not transactions).

EBITDA

EFRAG considers that it would have been useful to define EBIT and EBITDA as they are among the most used performance measures. However, as such measures have not been defined by the IASB, they should be included in the scope of the IASB's proposals regarding MPM disclosures. In addition, EFRAG suggests that the IASB clarifies the principle behind the list of measures not considered to be MPMs provided in paragraph 104 of the ED.

Statement of cash flows

EFRAG supports the IASB's proposal to require entities to use 'operating profit or loss' as the starting point for the indirect reconciliation of cash flows from operating activities in the statement of cash flows. This is because it specifies a consistent starting point for the indirect method of reporting cash flows from operating activities and reconciles the operating category in the statement of profit or loss with the operating activities in the statement of cash flows. EFRAG also supports the removal of options for the classification of interest and dividends in the statement of cash flows for non-financial entities, as it will improve consistency in presentation of similar line items and will better reflect the nature of the respective cash flows.

However, EFRAG suggests that the IASB should have a separate project on IAS 7 *Statement of Cash Flows* 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.

Other comments: presentation of revenue and costs in different business lines

EFRAG highlights that, currently, there is diversity in practice in how entities that operate business activities in different industries present their performance (e.g. a manufacturer providing financing to customers or entities operating both banking and insurance services). Some entities present information about their different business activities in the statement of profit or loss, as part of operating profit, by adding separate rows and allocating revenues and expenses reflecting the different business activities (as in paragraph EI11 of the Illustrative Examples). On the contrary, other entities present all income and expenses related to different business activities without any business activity distinction, accompanied by more detailed information in the segment reporting section in accordance with IFRS 8.

EFRAG considers that it could be useful if the IASB could further explain how entities with different business activities should prepare their financial statements, especially when considering the example provided by the IASB in paragraph IE11 of the Illustrative Examples. The IASB should consider providing further illustration on how the split between the operating/financing and investing categories should be done in this case. In addition, the need for consistency with the requirements in IFRS 8 should be considered together with the disclosure of judgement applied to allocate revenues and costs across business activities (e.g. in case of group internal transactions between businesses), when they are presented separately on the face of the statement of profit or loss.

Other comments: proposals on other comprehensive income

EFRAG does not consider that the IASB's proposals on other comprehensive income ('OCI') are a significant improvement as they simply modify the labelling of OCI line items. EFRAG considers that it will be difficult to significantly improve the communication and understandability of OCI without addressing the distinction between profit or loss and OCI and the role of recycling.

Others: effective date and transition

EFRAG recommends that consideration is given to the practicalities and timescales of implementation of IFRS 17 together with any new standards or amendments arising from the ED.

EFRAG considers that the proposed time of 18 to 24 month for a retrospective first-time application may not be sufficient, particularly if the IASB decides to proceed with all its proposals (e.g. disclosures by nature when presenting by function).

EFRAG has also provided additional suggestions to improve presentation in the primary financial statements in *other comments* section.

EFRAG's detailed comments and responses to the questions in the ED are set out in Appendix 1 *EFRAG's responses to the questions raised in the ED*. This letter also includes

Appendix 2 *Early Stage Analysis* with a preliminary impact assessment of the IASB's proposals.

If you would like to discuss our comments further, please do not hesitate to contact Filipe Camilo Alves, Robert Stojek or me.

Yours sincerely,

Jean-Paul Gauzès

President of the EFRAG Board

Contents

Appendix 1 - EFRAG's responses to the questions raised in the ED

Question 1 – operating profit or loss

> **Question 1 – Operating profit or loss**
>
> Paragraph 60(a) of the Exposure Draft proposes that all entities present in the statement of profit or loss a subtotal for operating profit or loss.
>
> Paragraph BC53 of the Basis for Conclusions describes the Board's reasons for this proposal.
>
> Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

EFRAG's response

> **In general, EFRAG supports the IASB's efforts to improve the structure and content of primary financial statements, particularly the statement of profit or loss.**
>
> **EFRAG highlights that 'operating profit or loss' is one of the most used subtotals and currently there is a lack of consistency in its use, labelling and definition. Thus, EFRAG supports the IASB's proposal to require all entities to present on the face of the statement of profit or loss the subtotal 'operating profit or loss' (with its consequent labelling), to reduce diversity in practice and improve comparability of financial statements. Nonetheless, EFRAG calls for the IASB to further consider the presentation of required subtotals when one or more line items between categories are immaterial. .**

Improvements to the structure and content of the statement(s) of financial performance in general

1 EFRAG acknowledges that the structure and content of the statement(s) of financial performance vary even among entities in the same industry and that this might reduce the ability of users of financial statements to compare the financial performance of different entities. Therefore, EFRAG supports the IASB's efforts to improve the structure and content of primary financial statements, particularly on the statement of profit or loss, as the IASB's proposed improvements ~~also~~ address issues that have high priority within the IASB's work plan.

2 Nonetheless, as further detailed in questions 3 and 4 below, EFRAG highlights that in many jurisdictions regulators and national standard setters have specific presentation requirements in addition to those required by the IFRS Standards. EFRAG suggests the IASB to closely communicate with regulators on this topic to avoid a situation where entities will need to prepare different sets of financial statements to comply with IFRS and regulators' requirements.

3 EFRAG also highlights that both the statement of financial performance and the statement of cash flows are not aligned and will have three different categories with similar names (operating, investing, and financing). As a result, for example, the cost of an item of property, plant and equipment (e.g. depreciation expenses) would be included in the category 'operating profit or loss' while investments in long-term assets (e.g. property, plant and equipment) would be classified as investing activities in accordance with IAS 7. As long as the two statements are not aligned, EFRAG considers that it would be useful to use a different labelling from IAS 7 to avoid confusion.

4 ~~Therefore, EFRAG considers that it is important at the current stage to have a clear conceptual basis for the new structure of the financial statements and clarity of the interaction between the statement of financial performance and the statement of~~

~~cash flows, including the reasons why there is no alignment.~~In addition, as further explained in Question 13 of our letter EFRAG would encourage a separate project on IAS 7 to improve consistency with the new content and structure of the statement of profit or loss. ~~EFRAG considers that, in the meantime and in case the IASB decides to not align the two statements, it would be useful to use for the categories presented a different labelling from IAS 7 to avoid confusion.~~

Operating profit or loss

5 In regard to the IASB's proposal to require all entities to present in the statement of profit or loss a subtotal for operating profit or loss, EFRAG highlights that 'operating profit or loss' is one of the most used subtotals and currently there is lack of consistency in its use, labelling and definition. The subtotal 'operating profit or loss' also plays an important role in investment and financial analysis decisions.

6 Thus, EFRAG supports the IASB's proposal to require all entities to present "operating profit or loss" to reduce diversity in practice and improve comparability of financial statements. Nonetheless, on the basis of feedback received from its constituents, EFRAG understands that there are cases where one or more line items between categories or even a required subtotal would be immaterial. Considering this, the IASB should clarify whether, and if so, how entities should present their subtotals in such circumstances. For example:

(a) the investment amounts can be immaterial for entities that do and do not invest as part of their main business or in the course of their main business (if such investments are material, then it is likely that they will be presented in operating profit). Similarly, there may be cases where investments in associates and joint ventures are immaterial. In such cases, the subtotal 'operating profit or loss' would be equal to 'Profit or loss before financing and income tax' (this often occurs in practice). This would raise questions on which would prevail, or whether an entity has to present a line with an immaterial or even nil amount as it is a required subtotal, as is it the case for some national guidance on presentation in primary financial statements.

(b) for banks and financial conglomerates, most of the income and expenses would be presented within the subtotal 'operating profit or loss'. Only the share of profit or loss of associates and joint ventures and unwinding of discount on pension liabilities and provisions would be presented outside of operating profit or loss (as in Illustrative Example II-3). If these items are not material, the subtotal 'operating profit or loss' would be equal to 'profit or loss before tax'. This would also raise questions on which would prevail or whether an entity has to provide both.

Question 2 – the operating category

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Paragraph 46 of the Exposure Draft proposes that entities classify in the operating category all income and expenses not classified in the other categories, such as the investing category or the financing category.

Paragraphs BC54–BC57 of the Basis for Conclusions describe the Board's reasons for this proposal.

Do you agree with this proposal? Why or why not? If not, what alternative approach would you suggest and why?

EFRAG's response

EFRAG supports the IASB's proposal to define the 'operating category' as described in paragraph 46 of the ED. EFRAG notes that in paragraphs 46 and

B25-B31 of the ED the IASB starts by defining the operating category positively and then introduces a residual element in its definition. This residual element is further explained in paragraphs BC54 and BC55 of the Basis for Conclusions.

In this context, EFRAG highlights the importance of having clear guidance on the notion of the "entity's main business activity" or "in the course of the entity's main business activity".

EFRAG highlights some challenges on the classification of foreign exchange differences and of fair value gains and losses on derivatives and hedging instruments and difficulties of the IASB's proposals in specific circumstances.

Finally, EFRAG suggests that the IASB considers how the proposals would have to be applied in the separate financial statements.

7 EFRAG supports the IASB's proposal to define 'operating profit or loss' and 'operating category' as described in paragraph 46 of the ED. The subtotal 'operating profit or loss' (or a variation of a similar concept) is widely used in practice and having a common definition would have the benefit of improving comparability between entities.

8 In particular, EFRAG notes that in paragraphs 46 and B25-B31 of the ED, the IASB starts by defining the operating category positively ('includes information about income and expenses from an entity's main business activities') and then introduces a residual element in its definition. This residual element is further explained in paragraphs BC54 and BC55 of the Basis for Conclusions. Such a definition is suitable to accommodate the needs of different business models, including those of financial institutions, and allow the use of additional subtotals within operating profit when deemed necessary (e.g. gross profit, net interest income, etc). Therefore, EFRAG considers that the outcome of the IASB's approach to define 'operating profit or loss' will provide useful information to users of financial statements.

9 Feedback from the outreach and comment letters shows that there are reservations on this approach to the definition. In particular, constituents observe that the combination of a positive definition and a residual element would result in presenting a complete picture of an entity's operations in one category, but at the same time would include in this category not only "the entity's main business activity" (as per the positive definition), but also residual or ancillary activities (i.e. not part of the entity's main business activities).

10 Nonetheless, EFRAG notes that the in accordance with paragraph 42 of the ED, the ED requires entities to define and present additional line items or subtotals within operating profit and/or to use MPMs (e.g. 'adjusted operating profit' or 'core profit') if entities wish to present such minor or ancillary business activities separately within operating profit or loss.

11 In order to enhance the understandability of the resulting information when entities present additional line items or subtotals for their residual or ancillary operating activities, EFRAG suggests to require a specific disclosure, including narrative disclosures providing a description of the nature of the entity's operations, its main business activities and residual or ancillary activities, to help users understand the classification of income and expenses in the different categories. In addition, the IASB should consider improvements to the interaction between the proposal in the ED and IFRS 8, by, for example, including minor or auxiliary business activities (i.e. not main business activities) as a different segment.

12 For possible improvements to the definition of investing and financing category, refer to questions 5 and 6.

Clarifying the notion of the 'entity's main business activity' or 'in the course of the entity's main business activity'

~~9~~13 In this context, EFRAG highlights the importance of having clear guidance, including definition, on the notion of the 'entity's main business activity' or 'in the course of the entity's main business activity' as the allocation of income and expenses to the operating category significantly relies on these notions and the use of such concepts might involve significant judgement. ~~This is further explained in Question 3 below.~~More specifically, further clarification is needed regarding:

(a) the notion of 'an entity's main business activities', especially when considering different levels of reporting entities in a group context (e.g. the IASB should clarify as to whether the classification made at a lower reporting entity level shall be maintained after consolidation of the entity/subgroup into the financial statements presented);

(b) when an entity is permitted or even required to reassess what constitutes its main business activities, including related disclosures and reclassification consequences (e.g. whether comparatives need to be adjusted);

(c) as already mentioned above, narrative disclosure required to provide a description of the nature of the entity's operations and its main business activities to help users understand the classification of income and expenses in the different categories;

(d) the rationale for a different treatment of interest related to extended credit/debit terms for customers and suppliers; and

(e) the link between the concept 'main business activities' in the ED and IFRS 8 *Operating Segments*, in particular how the notion of operating profit will interact with information presented under IFRS 8 (e.g. whether there is a need to present the operating profit by segments and reconciled with IFRS 8 information).

14 This is further explained in Question 3 below.

Improvements to the definition of an operating profit or loss

15 EFRAG also considers that the IASB should further consider how its proposals should be applied in specific circumstances:

(a) for entities that invest in the course of their main business activities, investments in associates and joint ventures that are made in the course of an entity's main business activities and are part of entity's investment strategy, where the risks and rewards would be part of the entity's main business activities (e.g. investments that fund insurance liabilities included in the operating category). Thus, they should be also presented in the operating category; and

(b) the interaction of the IASB's proposals with IFRS 17 and IFRS 9. In particular, consider the impact of requiring entities to present in operating profit the changes in fair value of insurance liabilities under IFRS 17 and financial assets under IFRS 9 (i.e. include in operating profit or loss fair value investment variances and economic assumption changes), particularly when comparing to entities that opt to use OCI. Also, the interaction between the operating and investing category and the presentation requirements in IFRS 17.

Definition of operating profit or loss in Appendix A of the new IFRS Standard

16 EFRAG recommends that the IASB include definitions for each of the new categories – 'operating', 'investing' and 'financing' – in Appendix A of the new IFRS Standard and highlights the importance of having clear and independent definitions of investing and financing categories.

Classification of foreign exchange differences and of fair value gains and losses on derivatives and hedging instruments

17 In the ED, the IASB proposes that an entity is required to classify foreign exchange differences and fair value gains and losses on derivatives and hedging instruments included in profit or loss in the same sections of the statement(s) of financial performance as the income and expenses arising from the items that gave rise to the foreign exchange differences.

18 From a conceptual point of view, EFRAG sees merits in the IASB proposals on the classification of foreign exchange differences and of fair value gains and losses on derivatives and hedging instruments. Nonetheless, feedback from preparers shows that tracking exchange differences, hedging or risk mitigation activities related to the operating, investing, and financing categories can be burdensome and costly (as mentioned in paragraph BC285(b) of the Basis for Conclusions), and may outweigh the benefits of classifying the items in the sections of the statement(s) of financial performance. Thus, EFRAG considers that the IASB should consider further the cost/benefit profile of this proposal.

19 In addition, some preparers have reported possible resulting mismatches between different line items, if the aggregated result of underlying components and hedging/risk mitigation components is not presented in the same line. Thus, EFRAG suggests the IASB to clarify how such requirements should be applied. More specifically, clarify the guidance on hedging instruments that hedge a group of items with offsetting risk positions when all hedge items are within one category (operating category) and allow the presentation of related gains and losses in that category (i.e. operating category).

Presentation in the separate financial statements

20 EFRAG highlights that the IASB's proposals would also apply to separate financial statements. In particular, the IASB's proposals would apply to subsidiaries, associates and joint ventures in the separate financial statements, which may in some cases raise questions about where to present such income and expenses.

21 For example, it is not clear whether the parent company in its separate financial statements should classify:

(a) dividends from subsidiaries, associates and joint ventures, regardless of the measurement basis, in the operating or in the investing category if the parent is a holding company; and

(b) the share of profit or loss from subsidiaries measured applying the equity method, as allowed by IAS 27 *Separate Financial Statements*, in the operating or in the investing category.

22 Finally, if the main activity of the parent company is to finance subsidiaries, joint ventures and associates it is not clear where to classify the related financial income and expenses in the separate financial statements.

Question 3 - the operating category: income and expenses from investments made in the course of an entity's main business activities

Question 3 – the operating category: income and expenses from investments made in the course of an entity's main business activities

Paragraph 48 of the Exposure Draft proposes that an entity classifies in the operating category income and expenses from investments made in the course of the entity's main business activities.

Paragraphs BC58–BC61 of the Basis for Conclusions describe the Board's reasons for this proposal.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

EFRAG's response

EFRAG agrees with the proposal as it will enhance the comparability between entities and provide relevant information to users of financial statements.

Nonetheless, EFRAG calls upon the IASB to closely communicate with regulators on the interaction of the IASB proposals with existing regulatory frameworks, particularly those that exist across Europe (e.g. on the use of additional subtotals).

EFRAG also highlights the importance of clarifying the notion of the "entity's main business activity" or "in the course of the entity's main business activity", including illustrative examples of investments that are not made in the course of an entity's main business activities.

~~10~~23 EFRAG agrees with the proposal as it will enhance the comparability between entities and notes that in a majority of cases income and expenses from investments made in the course of the entity's main business activities (e.g. dividends, interest received, rental income, etc.) are already part of the operating profit in the financial sector.

~~11~~24 In many EU jurisdictions regulators have specific presentation requirements in addition to those required by the IFRS Standards. EFRAG suggests the IASB to closely communicate with regulators on this topic to avoid entities having to prepare different financial statements to respectively comply with IFRS and regulators' requirements. The IASB should consider, as part of the effects of these proposals, the interaction of the IASB's proposals with existing regulatory frameworks on presentation of financial statements. ~~EFRAG is seeking further information from constituents in the financial sector on how these proposals will affect them.~~

Clarify the notion of the 'entity's main business activity' or 'in the course of the entity's main business activity'

~~12~~25 EFRAG also highlights the importance of having clear guidance on the notion of 'in the course of the entity's main business activity' as the allocation of income and expenses to the operating category significantly relies on these notions and use of such concepts will involve significant judgement.

~~13~~26 For example, it may be useful to clarify that paragraph B31 of the ED ('if, applying IFRS 8 *Operating Segments*, an entity reports a segment that constitutes a single business activity, that may indicate that that business activity is a main business activity') also complements paragraph B27 of the ED.

~~14~~27 It would also be useful to complement paragraph B27 of the ED with more examples of entities that invest outside of their main business activities or even mention the company's statutes, which typically define the business to be undertaken by the company. Such guidance could help management to decide when there is a need for an entity to separate returns from investments made in the course of their main business activities from those that are not, as such a split may involve significant judgement.

28 EFRAG also considers that the IASB should clarify some aspects of the proposals to help implementation. In particular:

(a) how its proposals should be applied to investment entities. In many cases the investment entities get financing to finance assets under management. According to the IASB proposals, it seems that income and expenses from cash and cash equivalents (overdrafts) would be presented in the operating category while income and expenses from loans and borrowings would be in the financing. This raises the question of whether investments entities can classify within the operating category the financing activities made in the course on the entity's investment activities (i.e. whether income and expenses from loans and borrowings that are undertaken to finance the assets under management of the investment fund should be within operating together with income and expenses from investments and cash and cash equivalents;

(b) provide illustrative examples of investments that are not made in the course of an entity's main business activities (e.g. investments made in order to meet capital requirements set by regulators).

~~15~~29 EFRAG also highlights the challenges of applying these concepts to entities with multiple business activities, that include investing and financing activities, particularly when considering the perspectives of the legal entity (parent or a subsidiary) in the separate financial statements and of the group.

Separating returns from investments made in the course of an entity's main business activities from those that are not

30 EFRAG acknowledges that separating returns from investments made in the course of an entity's main business activities from those that are not can be challenging and, in some circumstances, costly. EFRAG notes that judgement would need to be applied, including in assessing materiality and, as explained above, illustrative example would be helpful to support the implementation.

Question 4 - the operating category: an entity that provides financing to customers as a main business activity

Question 4 – The operating category: an entity that provides financing to customers as a main business activity

Paragraph 51 of the Exposure Draft proposes that an entity that provides financing to customers as a main business activity classify in the operating category either:

- income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or
- all income and expenses from financing activities and all income and expenses from cash and cash equivalents.

Paragraphs BC62–BC69 of the Basis for Conclusions describe the Board's reasons for the proposals.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

EFRAG's response

> **EFRAG agrees with the IASB's proposal for entities that provide financing to customers as a main business activity, as it provides relevant information to users of financial statements.**
>
> **However, EFRAG questions the IASB's proposal to provide a the 'free' accounting policy choice in paragraph 51(b) to non-financial institutions (e.g. manufacturer providing financing to customers).**
>
> **EFRAG also highlights the importance to clarify the notion of the "entity's main business activity" to support its implementation.**

~~16~~31 EFRAG agrees with the proposal as it will provide relevant information to users of financial statements and notes that in most cases income and expenses from financing activities made by an entity that provides financing to customers as a main business activity (e.g. net interest income) are already considered as part of the operating profit, particularly in the financial sector.

32 EFRAG acknowledges the concerns from banks and financial conglomerates about the presentation of the subtotal 'operating profit or loss' if (substantially) all income and expenses relate to main business activities. Preparers are concerned that this subtotal would be artificial and not contribute to the relevance of the information. EFRAG notes that in accordance with paragraph 42 of the ED, the IASB requires entities to define and present line items and additional subtotals to illustrate the different component of the overall banking profitability, such as net interest income or net commission income, in line with the current practice, or allows to use MPMs (e.g. adjusted operating profit).

Accounting option on presentation in paragraph 51 of the ED

~~17~~33 EFRAG acknowledges that the use of options in IFRS reduces comparability between entities, however, agrees with the IASB's argument in paragraph BC68 of the ED. In some cases, because of the difficulty to split income or expenses between the two categories, allocation should not be required but should be permitted.

34 Nonetheless, EFRAG questions the IASB's proposal to provide a the 'free' accounting policy choice in paragraph 51(b) of the ED to non-financial institutions (e.g. manufacturer providing financing to customers). In accordance with paragraph 51 of the ED, such type of entities would not be required to present income and expenses from financing activities in a financing category, although in this case ~~a financing category~~ such information would provide relevant information to users of financial statements. Considering this, EFRAG ~~considers~~suggests that the IASB restricts and introduces discipline on the use of in 51(b) and not allow a free option ~~in paragraph 51(b) is only relevant when providing financing to customers is the dominating business activity (when compared to other business operating segments).~~ for the entities described above.

~~18~~35 Finally, as already mentioned in question 3 above, in many EU jurisdictions regulators have specific presentation requirements in addition to those required by the IFRS Standards. EFRAG suggests the IASB to closely communicate with regulators on this topic.

More implementation guidance

36 EFRAG considers that the IASB should provide additional guidance to help implementation. In particular, provide more guidance and examples on:

(a) financing activities that do not relate to the provision of financing to customers for entities that provide financial services (e.g. collection of funds from customers and investing these funds without as main business activity, without providing funding to clients);

(b) additional guidance on determining what are the "main business activities" of an entity, particularly for non-financial entities. EFRAG assesses that for non-financial entities, challenges will arise when deciding whether providing financing to customers is a main business activity or not (e.g. cases where an entity provides significant financing to customers but does not disclose it in a separate business segment under IFRS 8).

Question 5 - The investing category

Question 5 – The investing category

Paragraphs 47–48 of the Exposure Draft propose that an entity classifies in the investing category income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources held by the entity, unless they are investments made in the course of the entity's main business activities.

Paragraphs BC48–BC52 of the Basis for Conclusions describe the Board's reasons for the proposal.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

EFRAG's response

EFRAG supports the IASB's proposal to require the presentation of an investing category subject to materiality considerations (in accordance with paragraph 24 of the ED).

Nonetheless, EFRAG considers that the definition of the investing category is not sufficiently clear to ensure consistent and comparable application and that the IASB should better explain the interaction of paragraphs 45 and 60 (on the new requirements related to the categories and subtotals) with paragraph 24 of the ED which refers to the notion of materiality.

~~EFRAG notes that the IASB's approach to consider income and expenses that arise from cash and cash equivalents being related to the entity's financing allows the reflection of managements' intention in managing debt and equity financing. However, there might be considerable relevance in another possible approach where the financing category is linked to the management of liabilities that arise from financing activities (as described in IAS 7) and the investing category is linked to the management of investments in assets. EFRAG is seeking views of the constituents on this topic.~~

Finally, EFRAG is concerned about presenting gains and losses on derivatives in the investing category under certain conditions, particularly when referring to financial institutions~~. EFRAG is also seeking views on the costs of the proposal for presentation of exchange differences.~~.

Presentation of an investing category

~~19~~37 Even though an investing category is currently not used in practice, EFRAG acknowledges that having a separate investing category may provide useful information to users of financial statements about the returns from investments that are not part of the entity's main business activities, particularly for non-financial institutions.

~~20~~38 EFRAG notes that the separate investing category will only be used by entities that make investments outside of their main business activities. EFRAG also highlights that these entities will have to consider paragraph 24 of the ED which states that an entity does not need to comply with a specific presentation requirement (i.e.

investing category) if the information resulting from that presentation or disclosure is not material. EFRAG notes that when the investing category is material and not made in the course of the entity's main business activities, presenting an overall subtotal of operating profit (without separate presentation of the income and expenses from the investments) would not allow for a proper appreciation of the risks and diversification of the business model.

~~21~~39 Thus, EFRAG supports the IASB's proposal to require the presentation of an investing category, subject to materiality considerations (in accordance with paragraph 24 of the ED). Nonetheless, EFRAG considers that the IASB should better explain the interaction of paragraphs 45 and 60 (on the new requirements related to the categories and subtotals) with paragraph 24 of the ED which refers to the notion of materiality~~.~~ (please see paragraph 6 above).

Definition of an investing category

~~22~~40 EFRAG highlights the complexity of the IASB's proposals on how to separate the investing and financing category, as such a distinction would be judgemental in nature. However, EFRAG considers that the ED proposes a convention for allocation of income and expenses to the three categories (operating, investing, and financing) and such proposal has the merits of supporting comparability of the resulting information.

~~23 In relation to this convention~~Nonetheless, based on the feedback obtained, EFRAG ~~highlights the challenges related to the presentation of income and expenses~~considers that ~~arise from cash and cash equivalents (as described in paragraph B24 of the ED) that are to be classified as part of the financing.~~

~~24 EFRAG notes that the IASB's approach to consider income and expenses that arise from cash and cash equivalents being part of the entity's financing (as explained by the IASB in paragraph BC39 of the Basis for Conclusions) allows to reflect management's intention in managing debt and equity financing.~~

~~25~~41 ~~However, there may be value relevance as well in another possible approach, that links the financing category to the management of an entity's liabilities that arise from financing activities (as described in IAS 7) and~~ the definition of the investing category ~~to the management of investments in assets. Thus, following this view, income and expenses arising from holdings of money market instruments, including those that meet the definition of cash and cash equivalents, would be in the investment category (except when an entity invests in financial assets in the course of its main business activities).~~ is not sufficiently clear to ensure consistent and comparable application. For example, clarifications are needed for:

~~26 Such an approach would also have the benefit of removing the exception included in paragraph B32(a) of the ED and the exception included in the definition of income and expenses from investments ('income and expenses from assets, except for income and expenses from cash and cash equivalents, that generate a return individually and largely independently of other resources held by an entity').~~

(a) what constitutes 'entity's main business activities', including examples of investments that are not part of the entity's main business activities;

(b) incremental expenses, (e.g. whether, for example, legal and advisory fees for activities including due diligence, negotiating terms, preparing legal documents, etc. are incremental) as per other IFRS Standards (e.g. IFRS 16 *Leases*, IFRS 15 *Revenue from Contracts with Customers*, IFRS 9, IAS 32 *Financial Instruments: Presentation*) have resulted in inconsistent or inadequate reporting disclosures;

(c) how entities should classify specific items such as negative interest payments (including the rationale for considering some or all of these components as belonging to the investment category rather than the operating category);

(d) the interaction of the classification of exchange differences and hedging instruments with the chosen presentation of operating expenses (by nature or by function);

(e) the classification of exchange differences (e.g. exchange differences impact P&L but refer to intercompany loans that are eliminated in the consolidated financial statements) ;

(f) the classification of hedging instruments (e.g. ineffective hedging portion and non-designated hedging instruments).

42 In addition, EFRAG considers that the IASB should include the definition of 'investing' category in Appendix A of the new IFRS Standard and highlights the importance of having clear and independent definition of investing category.

43 Finally, EFRAG acknowledges the feedback of some constituents, that consider as not pertaining to the main business activities and thus to the operating category some specific items, such as contingent consideration from business combinations, goodwill impairment losses, acquisition-related costs incurred in a business combination, the interests paid on investments, gains or losses arising from disposals of businesses and consolidated subsidiaries, remeasurements of previously held interest in associate and JV due to the obtaining of control over. Nonetheless, as already explained in paragraph 10 above, EFRAG considers that these concerns can be mitigated by the use of MPMs, better disclosures and improved segment information.

Classification of fair value gains and losses on derivatives

~~27~~44 EFRAG is concerned about presenting gains and losses on derivatives in the investing category under certain conditions (i.e. exceptions related to grossing up of gains and losses or the undue cost or effort), particularly when referring to financial institutions. This is because financial institutions might end up with an investing category just because of their hedging and risk management activities and it will be difficult to explain to users why some income and expenses from hedging and risk management activities have been presented as investments rather than in the operating and financial activities that they typically relate to.

~~28~~45 In addition, EFRAG suggests the IASB to clarify whether such items would end up being presented in the operating category when considering the IASB proposal to require entities to present in the operating category, income and expenses from investments made in the course of its main business activities (as in paragraphs 47-48 of the ED).

~~29~~46 ~~Finally, regarding~~Regarding the classification of fair value gains and losses on derivatives, EFRAG considers that it would be useful to have a definition of 'risk management', to specify on how to deal with discontinuation of hedging positions and whether the results of risk mitigation will be categorised in the same way as hedge accounting.

47 Finally, some preparers have reported possible resulting mismatches between different line items if the aggregated result of underlying components and hedging/risk mitigation components is not presented in the same line. Thus,, EFRAG suggests the IASB to clarify how such requirements should be applied. More specifically, clarify the guidance on hedging instruments that hedge a group of items with offsetting risk positions when all hedge items are within one category (operating category) and allow the presentation of related gains and losses in that category (i.e. operating category).

~~*Classification of foreign exchange differences and of fair value gains and losses on derivatives and hedging instruments*~~

~~30 In the ED, the IASB proposes that an entity is required to classify foreign exchange differences included in profit or loss in the same sections of the statement(s) of~~

~~financial performance as the income and expenses arising from the items that gave rise to the foreign exchange differences.~~

~~31 EFRAG is concerned that the cost of tracking the exchange differences and gains and losses on derivatives and non-derivatives (as mentioned in paragraph BC285(b) of the Basis for Conclusions) may outweigh the benefits of classifying the items in the sections of the statement(s) of financial performance.~~

Question 6 - profit or loss before financing and income tax and the financing category

Question 6 – profit or loss before financing and income tax and the financing category

(a) Paragraphs 60(c) and 64 of the Exposure Draft propose that all entities, except for some specified entities (see paragraph 64 of the Exposure Draft), present a profit or loss before financing and income tax subtotal in the statement of profit or loss.

(b) Paragraph 49 of the Exposure Draft proposes which income and expenses an entity classifies in the financing category.

Paragraphs BC33–BC45 of the Basis for Conclusions describe the Board's reasons for the proposals.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

EFRAG's response

EFRAG supports the IASB's proposal to require and define 'Profit or loss before financing and income tax' and the 'financing category'. EFRAG highlights that the outcome of IASB's proposals is, to some extent, similar to the concept of Earnings Before Interest and Tax ('EBIT') and that there is a strong demand from users of financial statements to define and require the presentation of a subtotal equal or similar to EBIT.

EFRAG has considered that there are arguments to support a different classification of income and expenses from cash and cash equivalent and of time value of money that liabilities that do not arise from financing activities. However, EFRAG concurs with the IASB that the proposed classification in the financing category would provide a reasonable compromise.

However, as already mentioned above, EFRAG highlights the challenges of the IASB's proposals to make the distinction between the investing and financing category and calls for the IASB to provide additional guidance to help implementation.

EFRAG notes that in accordance with paragraph BC44 of the Basis for Conclusions, time value of money on liabilities that do not arise from financing activities can be seen either as a component of the operating category or of the financing category. ~~EFRAG is seeking views from the constituents on this topic.~~

EFRAG notes that it would be useful to consider whether incremental expenses related to financing activities should also be in the financing activities in symmetry with the treatment of expenses relating to investing activities.

Presentation of a financing category

~~32~~48 EFRAG supports the IASB's proposal to require and define 'Profit or loss before financing and income tax' and the 'financing category'.

~~33~~49 EFRAG highlights that the outcome of the IASB's proposals is, to some extent, similar to the concept of *Earnings Before Interest and Tax* ('EBIT') and that there is a strong demand from users of financial statements to define and require the presentation of a subtotal equal or similar to EBIT.

Definition of a financing category

~~34~~50 As mentioned in Question 3, EFRAG highlights the challenges of the IASB's proposals to make the distinction between the investing and financing category, particularly when dealing with the classification of income and expenses from cash and cash equivalents.

51 The feedback from EFRAG's consultation confirms that views are split on which of the approaches provides the most relevant information. For example:

- (a) EFRAG notes that the IASB's approach to consider income and expenses that arise from cash and cash equivalents being related to the entity's financing allows the reflection of managements' intention in managing debt and equity financing. ~~In addition~~
- (b) There might be considerable relevance in another possible approach where the financing category is linked to the management of liabilities that arise from financing activities (as described in IAS 7) and the investing category is linked to the management of investments in assets.
- (c) As the IASB notes in paragraphs BC40 of the ED, most entities require some cash for operational purposes (for example, as a part of working capital), thus it could be viewed more related to operating activities.

52 Considering the different views on the topic, EFRAG accepts the approach proposed in the ED. As noted in paragraph BC40 of the Basis for Conclusions, requiring entities to split cash and cash equivalents between amounts in the different categories could result in operational costs which would outweigh the benefits.

~~35~~53 Finally, EFRAG notes that in accordance with paragraph BC44 of the Basis for Conclusions, time value of money on liabilities that do not arise from financing activities can be seen either as a component of the operating category or of the financing category. On the one hand, it can be argued that these income and expenses should not be classified in the financing category as they are not aligned with the overall principle of the financing category to be linked to financing activities. But on the other hand, EFRAG acknowledges that many users of financial statements consider such income and expenses to be similar to income or expenses from financing activities and would prefer such income and expenses not to be reflected within operating profit. (Please see detailed comments in paragraph 57 below)

Expenses related to financing activities

~~36~~54 In accordance with paragraph 47 of the ED, entities would classify in the investing category incremental expenses incurred to generate income and income from investments. However, the ~~IASB~~ED is silent on incremental expenses related to the financing category.

~~37~~55 EFRAG considers that it would be useful to ~~have guidance on~~ clarify whether incremental expenses related to financing activities should also be in the financing category.

Additional guidance on the financing category

56 EFRAG considers that the IASB should provide additional guidance to help implementation. In particular, provide more guidance and examples on:

- (a) the scope of "other liabilities" in paragraph 49 (c). For example, whether and to what extent provisions for uncertain tax positions are within the scope of other liabilities. The IASB should also clarify whether interest income and expenses on uncertain tax amounts are included in the same category;

(b) clarify whether immaterial items from financing and investing activities can be presented within the operating category.

Income and expenses that reflect the effect of the time value of money on liabilities that do not arise from financing activities

57 EFRAG acknowledges that there are arguments for presenting income and expenses that reflect the effect of the time value of money on liabilities that do not arise from financing activities as operating or financing. For example, the unwinding of the discount on:

(a) *net interest expense (income) on a net defined benefit pension liability (asset):*

(i) some argue that the net defined benefit liability is an operating liability and therefore the classification of the net interest should be in the operating category together with the service cost; and

(ii) some argue that such liabilities are in substance financing, because retaining them on balance sheet instead of having defined contribution liabilities or insuring the underlying pension obligation is a financing decision.

(b) *Decommissioning liabilities, restoring and similar liabilities*:

(i) some argue that such liabilities are financing because an entity could make a funding decision to borrow money to transfer, fund or settle these liabilities. Also, in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, the periodic unwinding of the discount shall be recognised in profit or loss as a finance cost as it occurs.

(ii) some argue that these are operating liabilities and that any interest on these liabilities is an operating cost as, for example, the counterparty is not a lending institution. Also, paragraph BC26 of IFRIC 1 notes that the IFRIC concluded that the unwinding of the discount on a decommissioning liability is not a borrowing cost for the purposes of IAS 23 because it does not reflect funds (ie cash) borrowed.

58 EFRAG is sympathetic to the arguments mentioned in paragraph BC44 of the Basis for Conclusions, that not all users consider that expenses that reflect the effect of the time value of money to be similar to income or expenses from financing activities and to address this issue t EFRAG understands that the proposal in the ED has been retained on a conventional basis. The IASB proposes a separate line within the financing category in order to offer a practical approach to identify these components.

59 Considering the above, EFRAG accepts the proposed approach and recommends that the IASB requires a disaggregation in the notes to the financial statements on the main components of the line.

Question 7 - Integral and non-integral associates and joint ventures

Question 7 – Integral and non-integral associates and joint ventures

(a) The proposed new paragraphs 20A–20D of IFRS 12 would define 'integral associates and joint ventures' and 'non-integral associates and joint ventures'; and require an entity to identify them.

(b) Paragraph 60(b) of the Exposure Draft proposes to require that an entity present in the statement of profit or loss a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures.

(c) Paragraphs 53, 75(a) and 82(g)-82(h) of the Exposure Draft, the proposed new paragraph 38A of IAS 7 and the proposed new paragraph 20E of IFRS 12 would require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures.

Paragraphs BC77–BC89 and BC205–BC213 of the Basis for Conclusions describe the Board's reasons for these proposals and discuss approaches that were considered but rejected by the Board.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

EFRAG's response

EFRAG considers that ~~providing a~~the distinction between integral and non-integral associates and joint ventures ~~will help~~ could provide relevant information to users ~~of financial statements to easily distinguish between associates and joint ventures that are closely related to the entity's main business activities and those that are not.~~ .

However, EFRAG ~~highlights~~is concerned that ~~such changes to~~ the ~~presentation requirements~~proposed definition would involve significant judgement and ~~need to be tested in practice~~, therefore, proposes the IASB to clarify or revisit the concept of integral, including its adjacent definitions of 'main business activity', 'generate a return individually and largely independently of the other assets of the entity' and 'significant interdependency'. EFRAG suggests, should the IASB go forward with the proposed definition, to expand the new paragraph 20D of IFRS 12 to widen the scope, include additional indicators and more examples with the objective of reducing the level of judgement involved.

~~EFRAG notes that~~EFRAG does not support the IASB proposal to require an entity to present on the face of the statement of profit or loss a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures. EFRAG suggests to present the results of all associates and joint ventures as a separate line item or subtotal below and close to the operating profit subtotal on the face of the profit or loss and to require to present a split between "integral" and "non-integral" in the notes to the financial statements.

EFRAG also recommends clarifying how the IASB's proposals would ~~also~~ apply to associates and joint ventures in the separate financial statements~~, which may in some cases raise questions about the applicability of the proposed definitions~~.

~~EFRAG welcomes the IASB's proposal to make a distinction between integral and non-integral~~ Presenting the share of profit or loss of equity accounted investments below operating profit

60 EFRAG understands from users' feedback that the presentation of a subtotal of operating profit net of this component provides useful information and will allow for more comparability regarding the operating line. Therefore, EFRAG supports this approach.

Definition of integral associates and joint ventures~~. EFRAG considers that providing such distinction will help~~

~~38~~61 EFRAG welcomes the IASB efforts to separate the share of profit or loss of integral and non-integral associates and joint ventures, as this could provide relevant information to users of financial statements ~~to identify~~and help them to distinguish between associates and joint ventures that are closely related to the entity's main business activities and those that are not.

62 ~~Nonetheless~~However, as also confirmed by the feedback received, EFRAG ~~acknowledges~~is concerned that ~~such distinction involves~~the proposed definition would involve significant ~~judgements~~judgement and ~~assumptions.~~ seems to raise more questions than answers. In addition, on the basis of the feedback received, preparers consider that the current definition excludes from the integral category some investments that management regards as belonging to their main business activities. Examples include:

(a) investments in entities operating in the markets where the acquisition of control by a foreign entity is generally not possible, nor it is feasible to achieve operational integration; nevertheless, management sees these investments as integral to their business;

(b) investments in entities not using the brand name of the reporting entity for business reasons but nevertheless seen as integral to the reporting entity's business;

(c) investments in entities belonging to the same operating sector as the reporting entity, where there is no integrated business, but seen as integral to the reporting entity's business.

~~39~~ Therefore, the ~~robustness of the definition of~~ IASB should consider clarifying or revisiting the conceptual dividing line between integral and non-integral ~~is crucial and there is a need to test how it would work in practice.~~

63 ~~In particular, clarify the interaction of the new two~~ investments, including to anchor such definition to the "main business activity". In addition, clarification would be welcome on the following concepts~~ 'main business activities of an entity' and '~~: "generate a return individually and largely independently of the other assets of the ~~entity' as the reference to main business~~ entity", "significant interdependency" between the entity and an associate or joint venture. Finally, to support a better understanding of the split performed by management, the IASB could consider linking the disclosure of the assumptions supporting the split to the illustration of the main business activity/activities~~ seems to indicate that~~ .

64 Should the IASB decide to proceed with its proposals, EFRAG suggests to provide more guidance (e.g. indicators) and examples to foster a consistent application of the proposal. In addition, the IASB should consider expanding the new paragraph 20D of IFRS 12 to widen the scope of integral associates and joint~~-ventures should be within the operating activities. In addition, the focus of the definition of~~ ventures to address, for example, joint arrangements in capital intensive industries, start-ups, co-operations in research and development, co-operations (minority positions) in foreign markets, etc. and to include additional indicators and more examples with the objective of reducing the level of judgement involved when making a distinction between integral and non-integral ~~(i.e.~~entities.

Separate presentation on the ~~use~~face of ~~'main business activities~~the statement of profit or loss

65 EFRAG does not support the IASB proposal to require an ~~entity'~~entity to present on the face of the statement of profit or loss a subtotal for operating profit or loss and ~~'return individually~~income and ~~largely independently of the~~ expenses from integral associates and joint ventures. The proposed new subtotal would give undue prominence to the two categories (integral/non integral), would be highly judgemental and, as such, not add significant information value to the statement of profit or loss.

66 Should the IASB go forward with the proposal of separating the two categories, EFRAG suggests to require to present the results of all associates and joint ventures as a separate line item or subtotal below and close to the operating profit subtotal on the face of the profit or loss and to require to disclose an illustration of the split between "integral" and "non-integral" in the notes to the financial statements. This would allow users to make their decisions regarding the classification of an entity's interests in associates and joint ventures.

~~40~~67 EFRAG also notes that in specific circumstances equity accounted investments (associates and joint ventures) may need to be reported in the operating category, such as in the circumstances illustrated in paragraph 15(a)15(a) of this letter and suggests the IASB to work on further refinement of the definition of integral and non-integral, such as when the risks and rewards from the investments impact other ~~assets of the entity') seems to change in different parts of the ED.~~parties (e.g. creditors, policyholders) than the shareholders.

Separate financial statements

~~41~~ EFRAG ~~notes that~~also recommends clarifying how the IASB's proposals would ~~also~~ apply to ~~the separate financial statements, which may raise questions about the applicability of the proposed definitions of integral and non-integral in this context. For example, if an entity elects to account for its investments in~~ associates and joint ventures ~~at cost in its separate financial statements, this will raise the question of whether the classification of its investments as integral or non-integral will apply.~~

~~42~~ ~~Similarly, for subsidiaries~~ in the separate financial statements ~~this will raise the question of whether the classification of its investments as integral and non-integral will apply.~~

~~43~~68 ~~EFRAG considers that there is a need for the IASB to further discuss how its proposals in general would apply to the separate financial statements, including the challenges that may arise in practice to those who prepare and use separate financial statements~~.

Question 8 - Roles of the primary financial statements and the notes, aggregation and disaggregation

Question 8 – Roles of the primary financial statements and the notes, aggregation and disaggregation

(a) Paragraphs 20-21 of the Exposure Draft set out the proposed description of the roles of the primary financial statements and the notes.

(b) Paragraphs 25-28 and B5-B15 of the Exposure Draft set out proposals for principles and general requirements on the aggregation and disaggregation of information.

Paragraphs BC19–BC27 of the Basis for Conclusions describe the Board's reasons for these proposals.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

EFRAG's response

EFRAG welcomes 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. EFRAG notes that having the principles and general requirements on aggregation and disaggregation of information in the financial statements within a single place in the new standard will improve clarity and consistent application across entities. Notwithstanding the above, EFRAG is of the view some further clarifications on the principle of aggregation are necessary.

Roles of the primary financial statements and the notes

~~44~~69 EFRAG welcomes the IASB proposal of providing additional guidance on the respective roles of the primary financial statements and notes. EFRAG considers that defining the roles can help define the boundaries between the notes and the primary financial statements. In EFRAG's view, the term 'primary financial statements' is generally well understood and EFRAG has not heard of major concerns raised by constituents.

~~45~~70 However, EFRAG recalls that in its comment letter on Discussion Paper DP/2017/1 *Disclosure Initiative - Principles of Disclosure*, EFRAG expressed concern that the proposed role of the primary financial statements focuses too much on the elements (assets, liabilities, equity, income, expenses). More specifically, EFRAG has concerns that the description noted in paragraph 20(a) of the ED may be too narrow. Instead, EFRAG considers that the defined role of the primary financial statements should focus on the overall position, performance, cash flows and stewardship of the entity, rather than the individual line items.

Aggregation and disaggregation

~~46~~71 EFRAG welcomes the IASB's efforts to improve disaggregation as a complement to the additional subtotals, particularly when dealing with groups of line items that have dissimilar characteristics and if the disaggregation leads to the disclosure of material information.

~~47~~72 EFRAG considers that having the principles and general requirements on aggregation and disaggregation of information in the financial statements in a single place within the new standard (paragraphs 25-28 and paragraphs B5-B15 of the ED) will bring clarity and improve consistent application, especially when dealing with large residual balances and 'other' balances both in the statement of financial position and statement(s) of financial performance.

~~48~~73 EFRAG also supports the IASB's decision not to introduce a quantitative threshold for the disaggregation of a group of items. EFRAG is of the view that a principle-based rather than a rule-based guidance should be developed to address the over-aggregation of line items.

74 Notwithstanding the above, EFRAG is of the view some further clarifications on the principle of aggregation are necessary. In particular, it is unclear:

(a) how the principles of (dis)aggregation relate to the use of comparatives. I.e. an entity

(i) would (not) need to retain the amount of detail presented in prior year financial statements (if it has concluded that another level of aggregation or disaggregation was appropriate); or

(ii) may change its presentation (including a restatement of the comparative information presented).

(b) how an entity can avoid that the application of the proposals in paragraphs 27 and 28 of the ED lead to presentation and disclosure of immaterial items obscuring the presentation of relevant information

75 EFRAG notes that with regard to goodwill the proposals in the ED and the *Discussion Paper on Goodwill and Impairment* are not aligned. EFRAG is of the view, as explained in paragraph 97~~91~~, that the unique nature of goodwill requires that any impairments thereof should be presented separately on the face of the income statement.

Question 9 - Analysis of operating expenses

Question 9 – Analysis of operating expenses

Paragraphs 68 and B45 of the Exposure Draft propose requirements and application guidance to help an entity to decide whether to present its operating expenses using the nature of expense method or the function of expense method of analysis. Paragraph 72 of the Exposure Draft proposes requiring an entity that provides an analysis of its operating expenses by function in the statement of profit or loss to provide an analysis using the nature of expense method in the notes.

Paragraphs BC109–BC114 of the Basis for Conclusions describe the Board's reasons for the proposals.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

EFRAG's response

EFRAG ~~is sympathetic towards~~supports the IASB's proposal to continue requiring entities to present an analysis of expenses using either by-function or by-nature method, based on whichever method provides the most useful information to the users of financial statements.

~~However,~~ EFRAG ~~suggests~~believes that it would be useful if the IASB ~~clarifies that paragraph B47 of~~ clarified its primary objective for the ~~ED allows~~presentation of expenses by nature or ~~even requires~~ by function, including the role and scope of a mixed basis of presentation (i.e. clearly state what a mixed presentation basis is and when ~~an entity is required to present line items under paragraphs 65 and B15 of the ED.~~such mix presentation is allowed).

Finally, EFRAG ~~suggests the IASB to include the reference to paragraph B15 directly in paragraph B47~~is of the ~~ED for clarity purposes~~view further guidance would be useful in a number of areas.

~~Analysis of expenses classified in~~ Presenting the analysis of operating ~~category~~expenses either by function or by nature

76 In the outreach activities, EFRAG ~~welcomes~~gathered evidence that both the nature of expense and the function of expense methods of analysis can provide useful information to users of financial statements. EFRAG understands that, in line with paragraph BC110 of the basis for conclusions, a by-nature method may be more helpful for users in forecasting operating expenses, while a by-function method may be considered more helpful for the calculation of some performance metrics. Feedback from the comment letters shows that European users consider the presentation by nature as more important than the presentation by function, while other international users would consider the two equally important.

~~49~~77 Considering the above, EFRAG supports the IASB's proposal to continue requiring entities to present an analysis of expenses using either a by-function or a by-nature method, based on whichever ~~approach~~method provides the most useful information to the users of financial statements.

78 However, EFRAG understands from the outreach feedback that better description of the by-function and by-nature methods is also needed, particularly if the IASB decides to proceed with its proposals to not allow a mixed presentation basis. EFRAG notes that a definition of 'by function' is missing.

Deciding which method of expense analysis provides the most useful information

79 Paragraph 68 and B45 of the ED emphasises that the selection of the method is not a free choice and includes a set of indicators to help entities assess which method provides the most useful information to the users of their financial statements.. EFRAG understands that the ED aims at strengthening the existing requirements, as users have raised concerns that companies may not choose the method that provides the most useful information in all circumstances.

80 EFRAG considers that the list of factors proposed by the IASB in paragraph B45 can be helpful for entities to determine whether a by-function or by-nature method provides the most useful information to users. However, EFRAG has gathered concerns about the application of paragraph B45. It is noted that the proposed indicators 'information in B45 (a) and (b) are neither supporting the nature of expense nor the function of expense method, as internal reports and communication to investors focus on items of income and profit rather than on expense items. Therefore, in practice, the third proposed indicator 'industry practice' (paragraph B45(c)) will likely be the predominant factor. Also, the proposals do not provide guidance for situations where one or more indicators support the nature of expense method, but other indicators support the function of expense method.

Clarification needed on the mixed presentation

81 In paragraph B46 of the ED the IASB explains that an entity shall not provide an analysis of expenses classified in the operating category using a mixture of the nature and the function of expense methods~~.~~ .

82 However, EFRAG notes that the strict prohibition of a mixed approach would raise a number of questions:

(a) in ~~paragraph~~paragraphs 65, B15, and B47 of the ED the IASB seems to contradict this principle by requiring minimum line items to be presented on the face regardless of this choice, leading to a mixed presentation (e.g. use of the line item 'cost of sales' in by-nature presentation or use of 'impairment of trade receivables' in by-function presentation as stipulated in paragraph IE6 of the Illustrative Examples~~). EFRAG considers that it would be useful if the IASB explained its primary objective for the presentation of expenses by nature or by function, including the role of a mixed basis of presentation and the disclosures of expenses by nature in that objective.~~);

(b) ~~In addition, EFRAG understands that a mixed presentation may still be allowed, or even required, as in accordance with~~ the paragraphs 65, 71, B15 and B47 of the ED~~, an entity might be allowed or required to present additional line items by nature. In paragraph B47 of the ED,~~ together with the presentation requirements in IFRS 9 and IFRS 17 would impose a mixed presentation basis for those applying IFRS 17;

(c) the IASB ~~already highlights that an entity shall present in the~~proposals would raise significant challenges for financial conglomerates which have to present in a single statement of profit or loss the ~~line items required~~banking and insurance activities. This is because banks generally report on a by-nature basis, while insurers generally report on a by~~paragraph 65 (i.e. minimum line items~~-function basis (both providing the most useful information to ~~be presented in the statement(s) of financial performance) regardless of~~ their users with regard to their respective activities). When combining both activities into one entity – a financial conglomerate – the prohibition to use a mixed approach would oblige an entity to choose a method ~~of analysis~~in term of presentation, which would override the most useful information replacing it with – by definition – less useful information.

83 Considering this, EFRAG believes that it would be useful if the IASB clarified its primary objective for the presentation of expenses ~~used. Nonetheless, in this~~by nature or by function, including the role and scope of a mixed basis of presentation (i.e. clearly state what a mixed presentation basis is and when such mix presentation is allowed).

~~50~~84 EFRAG also notes that paragraph B47 of the ED the IASB does not specifically mention paragraph B15 of the ED which may also give rise to the separate presentation in the statement(s) of financial performance of line items of income and expense by nature. Therefore, EFRAG suggests the IASB to include the reference to paragraph B15 directly in paragraph B47 of the ED for clarity purposes.

~~51 Therefore, EFRAG suggests the IASB to include the reference to paragraph B15 directly in paragraph B47 of the ED for clarity purposes.~~

~~*Disclosures*~~

~~52 EFRAG agrees with the IASB's proposal to require entities that present an analysis of expenses by function of expense on the face of the financial statements also to provide in the notes an analysis of its total operating expenses using the nature of expense method.~~

~~53 EFRAG acknowledges that paragraph 104 of IAS 1 already requires entities that classify expenses by function to disclose additional information on the nature of expenses. EFRAG acknowledges that such disclosures are not always provided in practice. Thus, EFRAG welcomes the IASB's proposed improvements in paragraph 72 of the ED, and related application guidance in paragraph B48 of the ED, which make the requirement for disclosures clearer and directly related to the operating profit or loss category.~~

~~*Application guidance*~~

~~54 EFRAG considers that the list of factors proposed by the IASB in paragraph B45 could be helpful for entities to determine whether a by-function or by-nature method provides the most useful information to users.~~

85 Finally, as mentioned in question 14, EFRAG would welcome more guidance on presentation for entities with multiple business activities, including guidance on the analysis of expenses in such circumstances.

Disclosing by nature when presenting by function - disclosures

86 While EFRAG supports the principle of a separate disclosure by-nature of the expenses classified in the operating category when presenting on the face the expenses in the operating category by-function.

87 EFRAG understands that the cost/benefit profile of the requirement is a source of concerns for preparers. Accordingly, EFRAG suggests to consider a more fine-tuned approach.

88 In particular, EFRAG has gathered evidence that, while it is feasible for some entities that present by function to develop information on a by-nature basis in the disclosures, for many others providing information by nature in the disclosures (that would have to match the total operating expenses presented by function in the face) would involve important costs as their existing systems do not capture such information.

89 EFRAG's outreach has further shown that both users and preparers have showed willingness to arrive at a more balanced outcome, such as by providing a partial presentation by nature of some operational expenses.

90 Considering this, EFRAG requests the IASB to further extend its cost and benefit analysis by, for example, further investigating which information about operating expenses by nature is fundamental for users of financial statements and whether the costs of providing such information would not outweigh the benefits for users.

91 Finally, EFRAG requests the IASB to further clarify how the requirement in paragraph 72 of the ED is to be applied when entities are required to present on a mixed basis (in accordance with paragraph 65 of the ED and IFRS 17).

Further guidance needed

92 On the basis of the feedback obtained by stakeholders, the following topics may need further guidance.

Definition of by-function

93 As discussed in paragraph 78~~79~~ above, EFRAG requests the IASB to define the by-function approach more clearly.

Cost of sales and administrative expenses

94 In order to enhance comparability and understandability of the gross profit from sale of goods item, EFRAG proposes the IASB to develop a definition of the cost of sales line item and require entities to disclose how that line item is composed. This would align it with the similar requirement that is set in IFRS 15 *Revenue Recognition* with regard to revenues.

95 For the same reasons, EFRAG asks the IASB to develop additional guidance about the item 'administrative expenses' including disclosure on how that item is composed. In addition, it would be useful to explain how such an item could be applied not only in a by-function approach but also in a by-nature approach.

Split of operating expenses by business lines and linkage to IFRS 8

96 EFRAG has been informed that a breakdown of operating expenses by business lines would be useful information to users in determining the valuation of companies they analyse. Hence, EFRAG requests the IASB to consider how the proposals on operating expenses would relate to the requirements of IFRS 8.

Impairment of goodwill – restructuring costs

97 EFRAG notes that the unique nature of goodwill requires that any impairments thereof should be presented separately on the face of the income statement. Similar as what the ED already proposes in paragraph 82 with regard to the presentation of goodwill in the statement of financial position.

98 Also, EFRAG welcomes further guidance on the possibility of using a mixed approach when dealing with restructuring costs.

Addressing changes in estimates (retrospective)

99 EFRAG further notes there is uncertainty on how the requirements can be applied retrospectively if an entity concludes that it needs to change its method of expense analysis. EFRAG suggests that changes in the presentation of the method of expense analysis are a change in accounting policies in accordance with IAS 8 *Accounting policies, changes in accounting estimates and errors*.

Question 10 - Unusual income and expenses

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(a) Paragraph 100 of the Exposure Draft introduces a definition of 'unusual income and expenses'.

(b) Paragraph 101 of the Exposure Draft proposes to require all entities to disclose unusual income and expenses in a single note.

(c) Paragraphs B67–B75 of the Exposure Draft propose application guidance to help an entity to identify its unusual income and expenses.

(d) Paragraphs 101(a)–101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses.

Paragraphs BC122–BC144 of the Basis for Conclusions describe the Board's reasons for the proposals and discuss approaches that were considered but rejected by the Board.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

EFRAG's response

EFRAG welcomes the IASB's efforts to define unusual income and expenses and to require entities to disclose such items. In EFRAG's opinion, the proposals would result in useful information provided to users and will reduce the diversity in practice of providing financial information about unusual income and expenses.

However, EFRAG highlights that the definition of unusual items seems to be rather narrow, as it only focuses on whether expenses/income will occur in the future. Instead, EFRAG suggests the IASB to consider not only items that will not arise for several future annual reporting periods (as expressed in the ED) but also items that occur presently in the business, but only for a limited period of time (e.g. those identified in paragraph B15 of the ED such as restructuring costs). Thus, EFRAG would suggest that entities are required to provide disclosures on the items identified in paragraph B15 of the new Standard.

EFRAG notes that the translation of term 'unusual' may raise issues in some jurisdictions.

Finally, EFRAG considers that it would be useful to clarify whether entities can present unusual items on the face of the financial statements by specifically referring to 'unusual line items' and 'unusual subtotals' within the categories defined by the IASB or with the use of columns. EFRAG also calls for the IASB to provide more implementation guidance (e.g. the terms 'several future annual reporting periods' and 'predictive value' may involve significant judgement, and more guidance on how to report unusual amounts).

~~Unusual~~Definition and disclosures on unusual items

~~55~~100 Currently, entities often disclose unusual or similarly described expenses and income in order to exclude them from information about underlying or normalised earnings. However, users of financial statements express concerns that the way entities provide this information varies significantly. It is often not clear how or why items have been identified as unusual.

~~56~~101 EFRAG therefore acknowledges that information about unusual items is relevant for users of financial statements and that currently there is diversity in practice on how entities provide such information. EFRAG notes the findings of ESMA Report *On the use of Alternative Performance Measures and on the compliance with ESMA APM Guidelines* (ESMA32-334-150) (ESMA APM Report). In its report, ESMA points to the most common adjustments to the APMs items are restructuring and impairment costs. EFRAG notes, however, that the ESMA APM Report only covers entities that are required to apply ESMA APM Guidelines[2].

~~57~~102 Therefore, EFRAG welcomes the proposals to introduce a definition of unusual income and expenses, guidance to help entities identify unusual income and expenses, and to require entities to disclose such items in the notes to financial statements, in a single place.

103 However, EFRAG highlights that the scope of the IASB's definition seems to be rather narrow, particularly when considering B67, as it only focuses on whether expenses/income will occur in the future. This would restrict the number of unusual items identified and, consequently, limit the usefulness of the disclosures.

~~58~~104 Instead, EFRAG suggests the IASB to consider not only items that will not occur in the future (as expressed in the ED) but also items that are occurring presently in the business, but only for a limited period of time (e.g. those identified in paragraph B15 of the ED such as restructuring costs). Such information would be useful to users of financial statements to forecast future cash flows and identify any disrupts in the earnings trend.

~~59~~105 Furthermore, there may be a tendency for preparers to continue to focus on unusual expenses rather than unusual income. Thus, EFRAG considers that the explanations in paragraph BC130 on neutrality in relation to equivalent reporting for unusual income and expense are relevant and could be reflected in the final standard. In this regard, EFRAG would welcome a strong principle from the IASB to define unusual items.

~~Apart from~~ Implementation of the ~~above comments on the scope,~~ IASB's definition

106 EFRAG would welcome additional guidance to help implementation of its proposals:

(a) EFRAG highlights that the terms 'several future annual reporting periods' and 'predictive value' will involve significant judgement and requests the IASB to further consider and test the use of such terminology, particularly against situations of unusual events, such as covid19. For example, regarding some costs such as restructuring costs (that may be present for more than one year), covid-19 expenses, questions will raise on where the limit would be when identifying the affected future periods. EFRAG suggests the IASB to articulate a clear principle for "limited predictive value".

(b) EFRAG also considers that the IASB should clarify (particularly in paragraph B69 of the ED) whether the whole amount should be recognised as unusual or only the incremental part of it (i.e. costs are outside the range of reasonably expected outcomes and not predictive of future costs) when the amount varies

[2] ESMA APM Guidelines became applicable in all EEA countries except Croatia, Denmark and Iceland in July 2016.

significantly from previous periods. For example, if an entity has litigation expenses, whether a major litigation would be considered as an unusual item in its entirety or whether an entity should only consider the excess amount when comparing to the amounts of litigation expenses that are inside the range of reasonably expected outcomes. This is relevant when considering, for example, loan impairment losses (normal vs unusual due to covid19). Clarification of the definition of unusual income and expenses: EFRAG notes that it is not completely clear whether the proposal requires income or expenses with limited predictive value to be similar both in type and amount, or fulfilling one of these two criteria is sufficient to meet the definition of unusual. This is because paragraphs B68 ('consider both the type of the income or expense and its amount') and B69 ('Income and expenses that are not unusual by type may be unusual in amount') of the ED seemed to be contradictory.

(c) EFRAG suggests that the IASB reconsiders paragraph 101 of the ED so that the information provided on the note on unusual incomes and expenses adheres to the materiality principle, such as significant unusual items.

(d) EFRAG suggests that the IASB considers linking its proposals with IFRS 8. More specifically, entities with multiple business activities should be allowed or even required to analyse and identify unusual income and expenses on a segment level

(e) the practice to adjust subtotals of profit or loss to eliminate non-recurring items is widespread. When such MPM is used, the new disclosure of unusual income and expenses may result in offering two different presentation approaches to the same topic. EFRAG suggests the IASB to better articulate how the disclosure on unusual items would interact with MPMs that are adjusted subtotals of profit or loss.

107 To provide more discipline into the implementation of this requirement, EFRAG suggests the IASB to consider requiring disclosures of an entity's accounting policy choice, illustrating how the definition of unusual items has been implemented by the management.

~~60~~108 EFRAG also highlights that the classification of unusual income and expenses, based on future expectations rather than on past occurrences, may create implementation issues. For example, a discontinued item of income or expenses (as defined in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*), with a historical pattern, may likely fall into the definition of unusual income and expenses. In other words, the criteria of unusual income and expenses are likely to capture discontinued operations, operations of a disposed subsidiary, disposed joint operations, or other items of income and expenses related to a ceased or disposed operations.

~~61~~109 EFRAG notes that the translation of term 'unusual' may raise issues in some jurisdictions as it carries more meanings than intended by the IASB, including activities potentially not allowed by the by-laws.

~~62~~110 Finally, to complement the IASB's proposal on unusual expenses and income, EFRAG would suggest that entities are required to provide disclosures on the items identified in paragraph B15 of the new Standard, as these are the most common adjustments to performance measures, often commonly understood as unusual.

~~63~~111 We acknowledge that in the IASB's Snapshot, the IASB explains that applying its proposals, unusual items would not be presented in a separate category in the statement of profit or loss. Instead, unusual items would be presented together with 'usual' income and expenses in their respective categories in the statement(s) of financial performance, according to their nature, function, or other characteristics.

~~64~~112 However, EFRAG considers that it would be useful to clarify whether entities can present unusual items on the face of the financial statements by specifically referring to 'unusual line items' (e.g. unusual litigation) and 'unusual subtotals' (e.g. operating profit before unusual items) within the categories defined by the IASB or with the use of columns (as in paragraph 110 of the ED for MPMs).

Question 11 - Management performance measures

Question 11 – Management performance measures

(a) Paragraph 103 of the Exposure Draft proposes a definition of 'management performance measures'.

(b) Paragraph 106 of the Exposure Draft proposes requiring an entity to disclose in a single note information about its management performance measures.

(c) Paragraphs 106(a)–106(d) of the Exposure Draft propose what information an entity would be required to disclose about its management performance measures.

Paragraphs BC145–BC180 of the Basis for Conclusions describe the Board's reasons for the proposals and discuss approaches that were considered but rejected by the Board.

Do you agree that information about management performance measures as defined by the Board should be included in the financial statements? Why or why not?

Do you agree with the proposed disclosure requirements for management performance measures? Why or why not? If not, what alternative disclosures would you suggest and why?

EFRAG's response

EFRAG agrees that non-IFRS measures are often used in practice and additional guidance could bring more transparency and consistency in their use. EFRAG therefore welcomes the IASB's efforts to provide guidance on MPMs.

~~However,~~ EFRAG ~~notes~~considers that ~~the scope is limited to~~ not only subtotals on the face of ~~income and expenses (thus it will not solve all the existing issues related non-IFRS~~the statement of profit or loss but also other measures~~) and highlights a number~~, such as indicators of ~~challenges~~financial position or ratios, should be included in ~~regard~~the scope of this requirements.

EFRAG notes, however, that the scope of public communication, as defined in the ED, is too wide and, therefore, EFRAG proposes to limit its definition to the ~~IASB's proposed scope. EFRAG is also seeking views from constituents on possible alternative approaches~~communications released together with the annual and/or interim reports. EFRAG also proposes to ~~define a narrower~~extend the scope~~.~~ and to apply the disclosure requirements to performance measures included in the financial statements and not in other public communication. EFRAG also suggests excluding from the scope the measures that are required by the regulators.

EFRAG questions also the cost/benefit profile of the requirement to present the split of tax and NCI components for all the items when a performance measure is adjusted.

Finally, EFRAG considers that the IASB has not sufficiently articulated the link between MPMs and IFRS 8 and suggests the IASB to require an explanation of

how MPMs interact with performance measures already presented under IFRS~~ ~~ 8.

Information about management performance measures

~~65~~113 EFRAG agrees that non-IFRS measures like MPMs or APMs are often used in practice and additional guidance could bring more transparency and consistency in their use. EFRAG recalls that many users consider non-IFRS measures useful for assessing a company's business and performance and that users have called for more transparency and consistency in their use. That would include clear labelling as MPM, disclosing calculation formulas, providing comparative figures and reconciliations with IFRS defined subtotals, etc.

~~66~~114 EFRAG therefore welcomes the IASB's efforts to provide guidance and require additional disclosures on the use of MPMs, particularly when they are presented within the financial statements.

Scope of the IASB's proposals on management performance measures

115 EFRAG considers that not only subtotals on the face of the profit or loss but also other measures, such as indicators of financial position or ratios, should be included in the scope of this requirements. This would allow for a complete depiction of the entity's performance.

~~67~~116 EFRAG acknowledges the importance of the issues related to presenting non-IFRS performance measures in public communication, such as management reports, ad-hoc disclosures, and prospectuses.

117 However, EFRAG suggests limiting the definition of "public communication" to the communications released together with the annual and/or interim reports. This would reduce the risk of the disclosures being incomplete and the cost required to identify and present the information.

118 Furthermore, EFRAG suggests that the measures already required by the regulators should not be in the scope of the proposed MPM disclosure requirements as such measures are already subject to the imposed obligatory regulations. In EFRAG's opinion disclosing this will provide information that is already available and therefore redundant.

~~68~~119 EFRAG is also sympathetic towards the arguments provided in paragraph BC151 of the Basis for conclusions where the IASB explains that including MPMs in the financial statements would make them subject to the same requirements regardless of the entity's jurisdiction; would improve the discipline with which they are prepared; and improve their transparency as such an approach would have the benefit of bringing into the financial statements some MPMs that would be audited.

~~69~~ ~~Nonetheless~~Moreover, EFRAG ~~notes the following issues arising from the IASB's proposal:~~

~~(a) the scope of MPMs is limited to subtotals of income and expenses and that such scope will not solve all the existing issues on non-IFRS measures as many of them are related to ratios, indicators of financial position or of cash flows and other measures such as organic growth;~~

~~(b) raises questions on whether~~also suggests the IASB ~~should require the disclosure of subtotals which are actually presented outside of the financial statements;~~

~~(c) the IASB would need to clearly define 'public communications' and its scope (e.g. whether it would refer to entity's public communications over the year and which public communications would be in the scope). EFRAG notes that the scope of the IASB's proposals seems to be wide in terms of public~~

~~communication which may create many issues (e.g. scanning all the possible communications);~~

~~(d) requires entities to present subtotals in the financial statements that are not aligned with the entity's accounting policies. Such a requirement would raise issues for auditors, give more prominence to non-IFRS defined subtotals or even elevate such subtotals to IFRS-defined terms;~~

~~(e) raises questions on whether metrics required by regulators would be considered as MPMs and, therefore, required to be reconciled to the most comparable subtotal indicated by IFRS Standards;~~

~~(f) raises questions on whether changes in the use of MPMs or their calculation would constitute a change in an accounting policy and, consequently, whether entities may only change when it results in the financial statements providing reliable and more relevant information (MPMs often change over time);~~

~~(g) raises practical challenges related to the disclosures on the effect of tax and non-controlling of each line item included in reconciliation, particularly when considering that the IASB is not requiring the presentation of adjusted earnings per share;~~

~~(h) raises audit issues, for instance, MPMs presented in a management commentary would be obligatory audited whereas the management commentary itself, would not;~~

~~(i) the current scope of application of the IASB's proposal would create a third category of measures, which are not IFRS-measures nor APMs, and has the potential to attribute undue prominence to non-GAAP measures; and~~

120 ~~raises questions why there are no~~to consider introducing the same disclosure requirements for ~~entities that use MPMs~~ non-GAAP performance measures presented within ~~the~~ financial statements but not in other public communication, that may not satisfy the proposed criteria of MPMs (e.g. adjusted revenues and ratios). The IASB would though need to appropriately amend paragraph 103 of the ED and to remove paragraph 103(a).

~~(j) outside the financial statements.~~

~~70~~121 ~~Additionally~~Finally, EFRAG considers that the guidance in paragraph 104 of the ED exempting some of performance measures from the requirement to provide reconciliation in the notes (e.g. gross profit), seems to be made on rules-based rather than on a principle-based approach.

~~71 Moreover, EFRAG also suggests the IASB to consider introducing the same disclosure requirements for other non-GAAP performance measures presented within financial statements, that may not satisfy the proposed criteria of MPMs (e.g. adjusted revenues and ratios). The IASB would though need to appropriately amend paragraph 103 of the ED and to remove paragraph 103(a).~~

~~*Alternative approach for the IASB to consider*~~

~~Alternative 1:~~ Change in measurement of MPMs

~~72~~122 EFRAG notes that MPMs often change over time. EFRAG therefore suggests the IASB to clarify whether changes in the use of MPMs or their calculation would constitute a change in an accounting policy and, consequently, whether entities may only change when it results in the financial statements ~~and~~providing reliable and more relevant information and, consequently, the appropriate guidance ~~in the MCPS~~of IAS 8 would apply.

~~73 EFRAG considers that the existing issues about comparability and understandability of performance measures used in financial communications arise primarily in communications outside the financial statements. EFRAG notes that, since 2016,~~

~~European issuers that are subject to Transparency Directive, Market Abuse Regulation or the Prospectus Directive, are generally required to apply ESMA APM Guidelines when publishing regulated information as defined by the Transparency Directive. Such guidance is aimed at providing adequate discipline and preventing that undue prominence is given to non-GAAP measures.~~

~~74 EFRAG considers that the ESMA APM guidelines, when applied consistently by issuers, improve the comparability, reliability and comprehensibility of financial information, thereby contributing to investor protection.~~

~~EFRAG suggests the IASB to review the scope of its proposals on MPMs and to limit its use to~~Disclosing tax and NCI effect in reconciliation

123 EFRAG expresses sympathy for the proposed requirements to disclose tax and NCI effects for all the adjustments in the MPM reconciliation as this would bring more transparency in the usage of management performance measures. However, based on the feedback received during the field test with preparers, EFRAG raises concerns related to balancing costs and benefits of this requirement. Consequently, EFRAG suggests the IASB to reconsider this requirement, such as to limit this requirement to income tax and NCI effects only if an entity presents an adjusted EPS ratio based on the MPM.

124 With specific reference to the benefits, EFRAG challenges the real possibility of achieving robust guidance in respect to disclosing tax and NCI effects. Namely, EFRAG considers the feedback from preparers about the complexity of the requirement, which may result in the need to use proxies, particularly when operating in difficult jurisdictions. In effect, the use of proxies may result in lower relevance of the disclosed financial information. EFRAG, therefore, questions whether the resulting information would actually be relevant in all cases.

125 Finally, EFRAG questions auditability of this information, in particular when proxies are used.

Interactions with IFRS 8

~~75~~ EFRAG considers that the IASB has not sufficiently articulated the link between MPMs ~~that are voluntarily presented within the financial statements and have~~and IFRS 8 and suggests the IASB to require an explanation of how ~~such~~ MPMs interact with ~~those~~performance measures already presented under IFRS 8.

~~76 Finally, for the MPMs presented outside the financial statements (e.g. in the management commentary), EFRAG understands that not all jurisdictions have guidance on the use of APMs outside the financial statements. To address this issue, EFRAG suggests the IASB to consider introducing the proposed MPM disclosure guidance in the IFRS Practice Statement 1 *Management Commentary*.~~

~~Alternative 2: MPMs in the communications released jointly with the annual or interim report, including earning releases~~

~~77~~126 ~~An additional alternative approach would be to define public communication as the communication released jointly with the annual report or interim report of the company, including earning releases.~~

Illustrative Examples

~~78~~127 EFRAG welcomes the IASB's efforts to provide illustrative examples on disclosing MPMs. However, EFRAG notes that the example, provided in *Illustrative Examples,* is not clear. According to the ED, such disclosures should clearly state what are the adjustments used to reconcile an MPM with the most directly comparable subtotal or total specified by IFRS Standards, and what is the effect of each the reconciling adjustments on income tax and non-controlling interest. While the presentation of the adjustments used to reconcile the MPM is clear, the presentation of effect of the adjustments on income tax and non-controlling interest is not. In EFRAG's opinion, such a disclosure should clearly label all the reconciling adjustments and their effects on income tax and non-controlling interest using the clear labels. In the example, however, the income tax and non-controlling interest effects are mixed with the reconciliation of other MPMs and, furthermore, with the disclosure on unusual items.

~~79~~128 EFRAG, therefore, suggests the IASB to reconsider the structure of the example and the way it provides information on MPMs and unusual items.

Question 12 – EBITDA

Question 12 – EBITDA

Paragraphs BC172–BC173 of the Basis for Conclusions explain why the Board has not proposed requirements relating to EBITDA.

Do you agree? Why or why not? If not, what alternative approach would you suggest and why?

EFRAG's response

In EFRAG's opinion, defining EBIT and EBITDA would be useful for users of financial statements and would reduce diversity in practice. As they have not been defined by the IASB, they should be included in the scope of the IASB's proposals regarding MPM disclosures.

Furthermore, EFRAG suggests the IASB to clarify the principle behind the list of measures not considered to be MPMs provided in paragraph 104 of the ED.

Definition of EBIT, EBITDA, and other similar measures

~~80~~129 EFRAG acknowledges the reasons provided by the IASB not to define EBIT, EBITDA, or similar measures. However, EFRAG highlights that there is a ~~strong~~ demand from users of financial statements for the IASB to define or even require the presentation of EBITDA (earnings before interest, tax, depreciation and amortisation), one of the most common performance measures used by users of financial statements.

~~81~~130 Nonetheless, considering that EBIT and EBITDA have not been defined by the IASB, EFRAG considers that they should be under the scope of the IASB's proposals on MPMs, when presented within the financial statements.

Subtotals specified by IFRS Standards that are not management performance measures

~~82~~131 EFRAG acknowledges that the IASB recognised some subtotals, currently not specified by IFRS Standards, as commonly used in the financial statements, and well understood by users of financial statements. In the IASB's opinion such subtotals include gross profit or loss (i.e. revenue less cost of sales) and similar subtotals, operating profit or loss before depreciation and amortisation, profit or loss from continuing operations, and profit or loss before income tax.

~~83~~132 The IASB proposes, therefore, to specify a list a such subtotals, that would not be considered MPMs, would not require reconciliation, and would be a starting point for reconciliation of MPMs.

~~84~~133 EFRAG agrees that providing a reconciliation for such measures would not provide additional information because their purposes and relationship to totals or subtotals specified by IFRS Standards are well understood and would usually be apparent from their presentation in the statement of profit or loss.

~~85~~134 However, the drafting of paragraph 104 of the ED, which specifies those subtotals, is not clear. The description of the measures, included in the list, may be misleading and the reasons to include or exclude measures from the list are unclear, indicating that the list is rules-based. Further proof of that is that users of financial statements[3] challenged the IASB's proposal to exempt from the MPM's disclosure requirements the subtotal 'operating profit or loss before depreciation and amortisation' as EBITDA typically excludes impairments from assets that are amortised or depreciated.

~~86~~135 As mentioned in paragraph 169 above, since the list in paragraph 104 of ED seems to be made on a rules-based rather than on a principle-based approach, EFRAG suggests the IASB to clarify its wording by providing a principle that would assist preparers when assessing whether or not a measure satisfies the condition to be considered as an MPM.

Question 13 - Statement of cash flows

Question 13 – Statement of cash flows

(a) The proposed amendment to paragraph 18(b) of IAS 7 would require operating profit or loss to be the starting point for the indirect method of reporting operating cash flows from operating activities.

(b) The proposed new paragraphs 33A and 34A–34D of IAS 7 would specify the classification of interest and dividend cash flows.

Paragraphs BC185–BC208 of the Basis for Conclusions describe the Board's reasons for the proposals and discusses approaches that were considered but rejected by the Board.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

EFRAG's response

EFRAG supports the IASB's proposal to require entities to use the 'operating profit or loss' as the starting point for the indirect reconciliation of cash flows from operating activities in the statement of cash flows, as it specifies a consistent starting point for the indirect method of reporting cash flows from operating activities. It also reconciles the operating category in the statement of profit or loss with the operating activities in the statement of cash flows.

EFRAG supports 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 observes 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 suggests the IASB to have 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.

Finally, EFRAG would welcome guidance on the presentation of arrangements where an intermediate is used to pay trade receivables (i.e. supply-chain financing arrangements or reverse factoring).

Starting point for the indirect method of reporting operating cash flows

[3] EFRAG User Panel members

~~87~~136 EFRAG supports the IASB's proposal to require entities to use the same starting point for the reconciliation of operating cash flows in the statement of cash flows using the indirect method as currently there is diversity in practice.

~~88~~137 EFRAG also supports the IASB's proposal to use the operating profit or loss subtotal as the starting point for reconciliation. EFRAG considers that there are pros and cons for using either profit after tax or operating profit or loss. However, considering that the definition of the operating category in the statement of profit or loss is not aligned with the definition of operating activities in the statement of cash flows, such reconciliation becomes even more relevant as it will provide a link between the two statements. In addition, EFRAG assesses that it will reduce the number of necessary adjustments to the line items that have an investing or financing nature.

Classification of interest and dividend cash flows

~~89~~138 EFRAG supports the removal of options in IAS 7 *Statement of Cash Flows* for the classification of interest and dividends and the introduction of additional guidance for the definition of financing activities. EFRAG expects that this will bring more consistency in presentation of similar line items and will better reflect the true nature of the respective cash flows.

Other improvements to the statement of cash flows

~~90~~139 EFRAG welcomes the IASB's efforts to make targeted improvements to IAS 7, however we consider that there is a need for a separate project on IAS 7 with the objective of having a comprehensive review of the challenges that arise in practice, particularly in regard to some financial institutions (e.g. banks and life insurers) where the statement of cash flows is not considered useful. Therefore, EFRAG suggests the IASB to:

(a) make further research work on having a statement of cash flows that is structured differently for financial institutions to ensure that it provides relevant information to users and mentioned EFRAG's Discussion Paper issued in 2015 *The Statement of Cash Flows: issues for Financial Institutions* (here);

(b) consider the issues raised in the UK FRC discussion paper *Improving the Statement of Cash Flows* (here); and

(c) improve consistency and eliminate current presentation inconsistencies between the statement of financial performance and the statement of cash flows in this separate project on IAS 7 (e.g. interest revenue from cash and cash equivalents is classified in the financing category in the statement of profit or loss, whereas all interest received is classified as cash flows from investing activities in the statement of cash flows as explained in paragraph BC197 of the Basis for Conclusions).

~~*Reverse factoring*~~

~~91 Currently, in IFRS, there is no specific reference to reverse factoring, however, there are accounting standards requirements that are relevant in determining the appropriate accounting policies (IFRS 9, IAS 1, IAS 7). Applying these standards requires significant judgement, particularly, as reverse factoring arrangements can differ significantly.~~

~~92 Therefore, EFRAG would welcome specific reference whether this type of liabilities should be presented as trade payables or as a financial debt/borrowing (from bank) in the statement of financial position. Similarly, EFRAG would welcome guidance on whether payments related to reverse factoring is best presented as an operational cash flow or a financing cash flow in the statement of cash flows.~~

~~93 Furthermore, better disclosure requirements are necessary in situations such as reverse factoring where an intermediate is used to pay trade receivables (supply-chain financing arrangements).~~

~~94 In those arrangements, the classification of such transactions as trade creditors is included in working capital changes and forms part of the operating cash flows instead of representing a financing liability in the financing cash flows. This reduces the transparency of information by smoothing operating cash flows and understating borrowings.~~

Question 14 - ~~other~~Other comments

> **Question 14 – Other comments**
>
> Do you have any other comments on the proposals in the Exposure Draft, including the analysis of the effects (paragraphs BC232–BC312 of the Basis for Conclusions, including Appendix) and Illustrative Examples accompanying the Exposure Draft?

IASB proposals on the presentation of other comprehensive income

~~95~~140 EFRAG acknowledges that the use of OCI and recycling has already been comprehensively discussed as part of the IASB's project on the *Conceptual Framework for Financial Reporting*. However, EFRAG notes that OCI and recycling are still often not well understood by investors and~~,~~ consequently, not used by them.

~~96~~141 In addition, some respondents to the 2015 IASB's Agenda Consultation stated that the Primary Financial Statements project would provide the IASB with an opportunity to analyse aspects of performance reporting that in their view, the Conceptual Framework project has failed to address or has not addressed satisfactorily (for example the definition of financial performance or profit or loss, the distinction between profit or loss and OCI).

~~97~~142 Therefore, EFRAG regrets that the IASB has not discussed this topic further to clarify which items of income and expense should be presented in profit or loss and which in OCI, as well as on the role of recycling.

~~98~~143 In addition, EFRAG does not consider the IASB's proposals significantly improving the current requirements as they simply modify the labelling of OCI line items. EFRAG considers that it will be difficult to significantly improve the communication and understandability of OCI without addressing the distinction between profit or loss and OCI and the role of recycling.

~~99~~144 Finally, EFRAG highlights that relevant information about OCI is also provided in the statement of financial position (e.g. separate components of equity), thus any future discussions on OCI should also consider the statement of financial position and its interaction with the statement of financial performance.

Interaction of the IASB's proposals on statement of profit or loss and the statement presenting comprehensive income

~~100~~145 EFRAG highlights that the IASB's ED is silent with regards to the use of new categories within the other comprehensive income even though there are transactions and events where the income and expenses have to be allocated to both the statement of profit or loss and other comprehensive income (e.g. hedging activities).

~~101~~146 For presentation purposes, an entity is required to allocate the income and expenses to the different categories in the statement of profit or loss, however the IASB's ED it is silent on whether the statement presenting comprehensive income should provide any information in regard to which category of the statement of profit or loss items of OCI may be recycled in the future.

IASB's proposed amendments to other standards

~~102~~147 In regard to the proposed amendments to IAS 34, EFRAG has some concerns about requiring a reconciliation of the MPM to the most directly comparable subtotal or total specified in IFRS Standards, including the effect of tax and non-controlling interests (NCI) separately for each of the differences between the MPM and the IFRS measure at interim financial statements.

~~103~~148 This is because, MPM reconciliations, including tax effect and NCI effect can be costly, particularly when preparing interim financial statements at consolidated level (e.g. tax includes income tax of different subsidiaries and not transactions).

~~104~~149 As mentioned above, EFRAG would prefer that the IASB would limit the scope of its requirements to MPMs. EFRAG considers that a narrower scope would reduce significantly the costs mentioned in paragraph above.

Other primary financial statements

~~105~~150 EFRAG welcomes the IASB's efforts to improve how information is communicated in the financial statements, with a focus on information about performance in the statement of profit or loss.

~~106~~151 EFRAG considers that there is still room to improve primary financial statements. In particular, EFRAG considers that the IASB should consider in the future potential improvements to the statement of changes in equity, statement of cash flows and statement of financial position.

Statement of financial position

~~107~~152 EFRAG assesses that the IASB should consider requiring, through minimum line items or subtotals, disaggregation of equity on the face of the statement of financial position to clearly identify and differentiate different subclasses of equity (e.g. ordinary shares and financial instruments that could be settled by issuing ordinary shares – implementation guidance).

~~108~~153 In addition, EFRAG considers that it would also be useful to have a definition of debt, a key metric for users of financial statements, and related disclosures.

The statement of changes in equity

~~109~~154 EFRAG considers there is a need to improve the statement of changes in equity to increase comparability and understandability for users of the financial statements, particularly on information related to separate components of equity related to other comprehensive income, information about other classes of equity instruments/shares and equity-like instruments and extended information about capital management. EFRAG considers that the IASB should look for improvements to/ the statement of changes in equity, particularly when considering that the IASB is not likely to address this issue within the Financial Instruments with Characteristics of Equity project (FICE) project.

Other comments: presentation of revenue and costs in different business lines

~~110~~155 EFRAG highlights that currently there is diversity in practice on how entities that operate business activities in different industries present their performance (e.g. a manufacturer providing financing to customers or entities operating both banking and insurance services). Some present information related to the different business activities in the statement of profit or loss as part of operating profit, by adding separate rows and allocating revenues and expenses (as in paragraph IE11 of Illustrative Examples). On the contrary, others present all income and expenses related to different business activities without any business distinction, accompanied by a more detailed information in the segment reporting provided in accordance with IFRS 8.

156 EFRAG considers that it could be useful if the IASB could further explain how entities with different business activities related to different industries should prepare their financial statements, especially when considering the example provided by the IASB in paragraph IE11 of the Illustrative Examples. The IASB should consider whether there is a need to provide further illustration on how the split between the operating/financing and investing categories in this case. In addition, the need for consistency with the requirements in IFRS 8 should be considered together with the disclosure of judgement applied to allocate revenues and costs across business activities (e.g. in case of group internal transactions between businesses), when they are presented separately on the face of the statement of profit or loss.

Effective date and transition:

157 EFRAG recommends that consideration is given to the practicalities and timescales of implementation of IFRS 17 together with any new standards or amendments arising from the ED.

158 EFRAG considers that the proposed time of 18 to 24 month for a retrospective first-time application may not be sufficient, particularly if the IASB decides to proceed with all its proposals (e.g. disclosures by nature when presenting by function).

Reverse factoring

159 Currently, in IFRS, there is no specific reference to reverse factoring, however, there are accounting standards requirements that are relevant in determining the appropriate accounting policies (IFRS 9, IAS 1, IAS 7). Applying these standards requires significant judgement, particularly, as reverse factoring arrangements can differ significantly.

160 Therefore, EFRAG would welcome specific reference whether this type of liabilities should be presented as trade payables or as a financial debt/borrowing (from bank) in the statement of financial position. Similarly, EFRAG would welcome guidance on whether payments related to reverse factoring is best presented as an operational cash flow or a financing cash flow in the statement of cash flows.

161 Furthermore, better disclosure requirements are necessary in situations such as reverse factoring where an intermediate is used to pay trade receivables (supply-chain financing arrangements).

162 In those arrangements, the classification of such transactions as trade creditors is included in working capital changes and forms part of the operating cash flows instead of representing a financing liability in the financing cash flows. This reduces the transparency of information by smoothing operating cash flows and understating borrowings.

163 EFRAG acknowledges that the IFRS Interpretations Committee is currently discussing this topic and any clarifications on this topic would be welcomed.