

EFRAG/IASB OUTREACH EVENT TOGETHER WITH - FSR DANISH AUDITORS AND - DI CONFEDERATION OF DANISH INDUSTRY



IASB'S EXPOSURE DRAFT: *GENERAL PRESENTATION AND DISCLOSURES*

14 May 2020



Confederation of Danish Industry

IASB's Exposure Draft General Presentation and Disclosures – EFRAG / IASB Outreach

Welcome

by

*Torben Johansen, FSR – Danish Auditors
(Chair of the Danish Accounting Standards Committee),
and
Kristian Koktvedgaard, Confederation of Danish Industry*

Agenda

- 09.30** **Opening and Welcome**
Torben Johansen, FSR
Kristian Koktvedgaard, DI
- 09.35** **Introduction to IASB Exposure Draft
General Presentation and Disclosures**
Françoise Flores and Aida Vatrenjak, IASB
EFRAG's view on the topic
Chiara Del Prete, EFRAG TEG Chairwoman
- 10.00** **Structured debate by topic**
*Each topic will be introduced by
Francoise Flores and Aida Vatrenjak, IASB and
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followed by an open debate based on SLIDO questions*
- 10.00** **Key Topic 1 – Defined lines and subtotals in income
statement – improved comparability or imposed
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- 10.20** **Key Topic 2 – Looking at the new subtotals – what is
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- 10.40** **Key Topic 3 – Management Performance Measures –
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for interest and dividends.**
- 11.50** **Next steps**
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Chiara Del Prete, EFRAG TEG Chairwoman*
- 11.55** **Closing remarks**
Kristian Koktvedgaard and Jan Peter Larsen

Presenters



Françoise Flores,
IASB Board member



Aida Vatrenejak,
IASB Technical Staff



Chiara Del Prete,
EFRAG TEG Chairwoman

Moderators



Torben Johansen, FSR



Jan Peter Larsen, FSR



Kristian Koktvedgaard, DI

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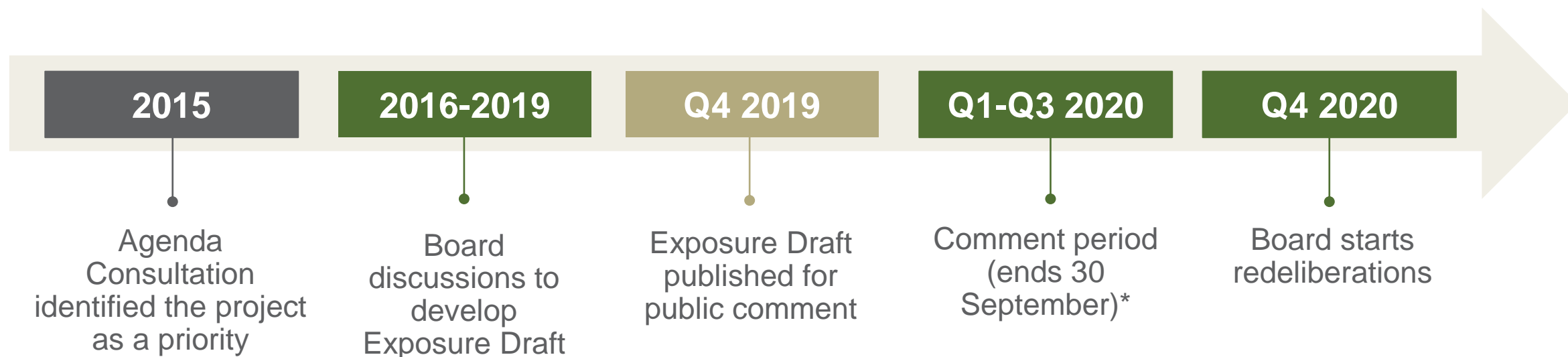
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Primary Financial Statements project



objective

To improve how information is communicated in the financial statements, with a focus on information included in the statement of profit or loss



*comment period extended from 30 June until 30 September 2020 due to covid-19 pandemic

The Exposure Draft

New IFRS Standard



Proposed **new** presentation and disclosure requirements +

Related requirements brought forward from **IAS 1** with limited wording changes

Amendments to other Standards

- IAS 7—statement of cash flows
- IFRS 12—associates and JVs
- IAS 33—earnings per share
- IAS 34—interim reporting




Other requirements of **IAS 1**—moved to IAS 8 and IFRS 7



Withdraw IAS 1



Key proposals in the ED & expected benefits

What users said 	Key proposals 	Expected benefits of proposals 
<p>Structure and content of statements of profit or loss varies between different entities, making it difficult to compare entities' performance</p>	<p>Introduce defined subtotals in the statement of profit or loss</p>	<p>Additional relevant information and a P&L structure that is more comparable between entities</p>
<p>Level of disaggregation does not always provide the information they need</p>	<p>Strengthen requirements for disaggregating information</p>	<p>Additional relevant information and material information not being obscured</p>
<p>Non-GAAP measures can provide useful information, but transparency and discipline need to be improved</p>	<p>Require companies to disclose information about management performance measures in the notes.</p>	<p>Transparency & discipline in use of such measures Disclosures in a single location</p>
<p>Classification and presentation options make it more difficult to compare entities</p>	<p>Introduce targeted improvements to the statement of cash flows</p>	<p>Improved comparability between entities</p>

EFRAG CONSULTATION AND JOINT FIELD-TEST

- EFRAG published its Draft Comment Letter on 24 February 2020, including the results of the **Early Stage Analysis**
- Comment letters are welcomed by **28 September 2020**
- Outreach with different types of European stakeholders, including users, preparers and NSS, and different jurisdictions have been converted into **public webinars and online events**, with technical support of EFRAG Secretariat
- **Field test with preparers** in coordination with European National Standard Setters and the IASB, **by 31 August 2020**
 - identify implementation and application concerns
 - determine whether there is a need for additional guidance
 - estimate the effort required to implement and apply the proposals.
 - interested preparers that are unable to participate in the field-tests, are invited to provide their input in an **online event on 1 September 2020**
- Preparers that want to participate may contact info@efrag.org by 31 July 2020.

OVERVIEW OF EFRAG COMMENTS

- EFRAG welcomes the IASB's proposals on improving how information is communicated in the financial statements, as it responds to a strong demand from users to improve the structure and content of the primary financial statements
- EFRAG considers that separate presentation of integral and non-integral associates and joint ventures will result in relevant information for users of financial statements and enhance comparability. Such presentation will involve significant judgement and needs to be tested in practice
- 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 in the scope of the IASB's proposals on MPMs
- 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
- 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 (e.g. definition of debt, a key metric for users of financial statements, and related disclosures).

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Board proposals - subtotals and categories

Revenue	347,000	Operating
Other income	3,800	
Changes in inventories of finished goods and work in progress	3,000	
Raw materials used	(146,000)	
Employee benefits	(107,000)	
Depreciation	(37,000)	
Amortisation	(12,500)	
Professional fees and other expenses	(10,030)	
Operating profit	41,270	
Share of profit or loss of integral associates and joint ventures	(600)	Integral associates and joint ventures
Operating profit and income and expenses from integral associates and joint ventures	40,670	
Share of profit or loss of non-integral associates and joint ventures	3,380	Investing
Dividend income	3,550	
Profit before financing and income tax	47,600	
Expenses from financing activities	(3,800)	Financing
Unwinding of discount on pension liabilities and provisions	(3,000)	
Profit before tax	40,800	
Income tax	(7,200)	
Profit for the year	33,600	

TOPIC 1: DEFINED LINES AND SUBTOTALS IN INCOME STATEMENT - IMPROVED COMPARABILITY OR IMPOSED UNIFORMITY?

- EFRAG supports the IASB's proposals to present an operating, investing and financing category in the statement of profit or loss to improve comparability and reduce diversity in practice
- 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. EFRAG Early Stage Analysis, consistent with researches from others, anticipates that the proposals will require entities to present on the face a subtotal that is already widely used in practice (*“OPERATING EARNING, RESULT”*). However, many entities may need to change the labelling of to *Operating profit or loss* and how this subtotal is calculated
- The newly created 3 categories in the statement of profit or loss are not aligned with the presentation of cash flows in the statement of cash flows, however, they have the similar labelling: until a revision of IAS 7 is undertaken 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
- The proposals will in practice have to interact with existing regulatory frameworks on presentation of financial statements

Q&A and Slido



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Example—investment and retail bank

Interest revenue calculated using the effective interest method	356,000
Interest expense	(281,000)
Net interest income	75,000
Fee and commission income	76,800
Fee and commission expenses	(45,300)
Net fee and commission income	31,500
Net trading income	9,100
Net investment income	11,600
Credit impairment losses	(17,300)
Employee benefits	(55,100)
[other line items not shown in this illustration]	(11,800)
Operating profit	43,000
Share of profit or loss of integral associates and joint ventures	(2,400)
Operating profit and income and expenses from integral associates and joint ventures	40,600
Share of profit or loss of non-integral associates and joint ventures	4,200
Profit before tax	44,800
Income tax expense	(11,200)
Profit for the year	33,600

all expenses from financing activities are classified in the operating category rather than the financing category

income (expenses) from investments made in the course of main business activities are classified in the operating category, rather than the investing category

no 'profit before financing and income tax' subtotal

TOPIC 2: LOOKING AT THE NEW SUBTOTALS – WHAT IS THE IMPACT AND WILL THEY WORK FOR ALL INDUSTRIES

- Clear guidance is needed on the notion of 'entity's main business activity'
- Dividing financing/investing has to be tested in practice, EFRAG is seeking views on
 - Should the financing category include (i) income/costs from cash and cash equivalents and (ii) time value of money?
 - Will it be difficult to separate returns from investments made in the course of an entity's main business activities from those that are not?
 - Will the split between operating/investing and financing be costly in practice?
- For financial institutions the proposal to classify the financing components in the operating category will provide relevant information as in most cases this is already done in practice. However EFRAG has reservation on presenting gains and losses on derivatives in the investing category
- For “conglomerates” EFRAG is seeking views: Should the IASB provide more guidance for the presentation of revenues and costs when they are allocated to different business activities on the face of the statement of profit or loss, including consistency with IFRS 8 and disclosure on judgement on the allocation process?

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Management performance measures (MPMs)

Disclosure in the notes of subtotals of income and expenses that:

Are used in public communications **outside financial statements**

Complement totals or subtotals specified by IFRS Standards

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

Accompanied by disclosures in a **single note to enhance transparency**

Not all performance measures are MPMs

Performance measures

Non-financial performance measures

For example:

- Number of subscribers
- Customer satisfaction score
- Store surface

Financial performance measures

(Sub)totals of income and expenses

IFRS-specified

For example:

- Profit or loss
- Operating profit
- Operating profit before depreciation and amortisation

MPMs

For example:

- Adjusted profit or loss
- Adjusted operating profit
- Adjusted EBITDA

Other measures that are not subtotals of income/expenses

For example:

- Free cash flow
- Return on equity
- Net debt
- Same-store sales

Unusual income and expenses

Definition



Income and expenses with **limited predictive value**.

Income and expenses have limited predictive value when it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future annual reporting periods.

Income and expenses from the recurring remeasurement of items measured at a current value would not normally be classified as unusual.

Disclosures

Amount & narrative description

Amount disaggregated by:

- line items presented in statement of profit or loss; and
- line items disclosed in analysis of operating expenses by nature, if the entity analyses expenses by function in the statement of profit or loss

TOPIC 3: MANAGEMENT PERFORMANCE MEASURES

- EFRAG welcomes the IASB's efforts to provide guidance on MPMs which are often used in practice and additional guidance on non-IFRS measures could bring more transparency and consistency on their use
- EFRAG suggests to apply the MPM requirements also to the non-GAAP performance measures, presented within financial statements, that may not satisfy the proposed criteria of MPMs (e.g. adjusted revenues and ratios) and highlights a number of challenges in regard to the ED proposals
- EFRAG is seeking views of its constituents
 - Scope 1 (MPM in the financial statements and guidance in the MCPS) or Scope 2 (MPM in communications released jointly with the annual or interim report, including earning releases)?
 - Costs and benefits of splitting income tax effect and NCI for each item in the reconciliation as required by paragraph 106(b)?
 - Do you believe that the IASB's proposals on the structure and content of the statement of profit or loss will lead to an increased number of MPMs?

TOPIC 3: UNUSUAL ITEMS

- EFRAG welcomes the IASB's proposals as they would result in useful information and reduce diversity in practice
- EFRAG suggests the IASB to refine definition of unusual to include 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 notes that the translation of term 'unusual' may raise issues in some jurisdictions
- 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

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Disaggregation

Analysis of operating expenses by nature and by function
strengthening current requirements

Roles of the primary financial statements and the notes

Required line items including goodwill

Unusual income and expenses

Principles for aggregation & disaggregation

Requirements for grouping dissimilar immaterial items avoiding 'other' labels

Disaggregation principles and grouping

Principles for aggregation & disaggregation

- Identify assets, liabilities, equity, income and expenses that arise from individual transactions or other events
- Classify items into groups based on shared characteristics, resulting in line items in the primary financial statements that share at least one characteristic
- Separate those line items based on further characteristics, resulting in the separate disclosure of material items in the notes

Grouping dissimilar immaterial items

- Companies should use **meaningful labels** for groups of immaterial items, avoiding line items such as 'other expenses'.
- If that is not possible, companies would be required to provide information in the **notes** about the **content** of such groups of items.

Analysis of operating expenses

Statement of profit or loss

Use method for analysis of operating expenses (by nature or by function) that provides the **most useful information**

- **Not a free choice**—the Board proposes to provide a set of indicators to help companies select a method
- Companies should **not mix** the two methods
- Would **remove option** to present analysis of expenses in the **notes only**

Notes

Disclose analysis by **nature** in the notes if analysis by function is presented in the statement of profit or loss

- Analysis of **total** operating expenses—no requirement to analyse each functional line item by nature

TOPIC 4: PRINCIPLES OF AGGREGATION AND DISAGGREGATION

- 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 as it improves clarity and consistency. EFRAG suggested only minor improvements
- EFRAG is sympathetic towards 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
- EFRAG seeks views on:
 - Do you consider that it is useful to have disclosures by nature in single note when an entity assesses that presentation by function provides the most useful information? Will it be costly to provide this additional info?
 - Do you consider that it is useful to have in the statement of profit or loss: (a) a strict presentation either by nature or by function (no mix); (b) a general presentation by nature or by function together with limited additional requirements as suggested in the ED by the IASB; or (c) a mix presentation basis (no restrictions)?

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Limited changes to the statement of cash flows (indirect method)

Operating profit	X
Adjustments for:	
Depreciation	X
[...]	
Income taxes paid	(X)
Net cash from operating activities	X
Acquisition of integral joint venture X	(X)
Acquisition of non-integral associate Y	(X)
Dividends received from integral associate A	X
Dividends received from non-integral associate B	X
Purchase of property, plant and equipment	(X)
[...]	
Net cash used in investing activities	(X)
Dividends paid	(X)
[...]	
Net cash used in financing activities	(X)
Net increase in cash and cash equivalents	X

Consistent starting point for indirect method for operating cash flows

Separate presentation of cash flows from integral and non-integral associates and joint ventures within investing cash flows

Elimination of classification options for interest and dividends

TOPIC 5: STATEMENT OF CASH FLOWS

- EFRAG supports the IASB proposals but 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, supply-chain financing arrangements) and
 - improve consistency with the new content and structure of the statement of profit or loss

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- 09.35** **Introduction to IASB Exposure Draft**
General Presentation and Disclosures
Francoise Flores and Aida Vatrenjak, IASB
- EFRAG's view on the topic**
Chiara Del Prete, EFRAG TEG Chairwoman
- 10.00** **Structured debate by topic**
Each topic will be introduced by
Francoise Flores and Aida Vatrenjak, IASB and
Chiara Del Prete, EFRAG TEG Chairwoman
followed by an open debate based on SLIDO questions
- 10.00** **Key Topic 1 – Defined lines and subtotals in income statement – improved comparability or imposed uniformity?**
- 10.20** **Key Topic 2 – Looking at the new subtotals – what is the impact and will they work for all industries?**
- 10.40** **Key Topic 3 – Management Performance Measures – definition, disclosure and unusual items. Will management still be able to explain the overall performance/ generation of income in the context of the activities and business strategy?**
- 11.20** **Key Topic 4 – Principles of aggregation and disaggregation – new proposals expected compared to how companies disaggregate information today.**
- 11.35** **Key Topic 5 – Statement of cash flows – change to starting point, new disaggregation due to new line items introduced and removal of classification choice for interest and dividends.**
- 11.50** **Next steps**
Françoise Flores and Aida Vatrenjak, IASB and
Chiara Del Prete, EFRAG TEG Chairwoman
- 11.55** **Closing remarks**
Kristian Koktvedgaard and Jan Peter Larsen

IASB's Exposure Draft General Presentation and Disclosures - EFRAG/IASB Outreach

Closing remarks

by

Kristian Koktvedgaard, DI

Jan Peter Larsen, FSR - Danish Auditors



SAVE THE DATE

Danish Financial Statements Awards 2020

Thursday 3 September 2020

