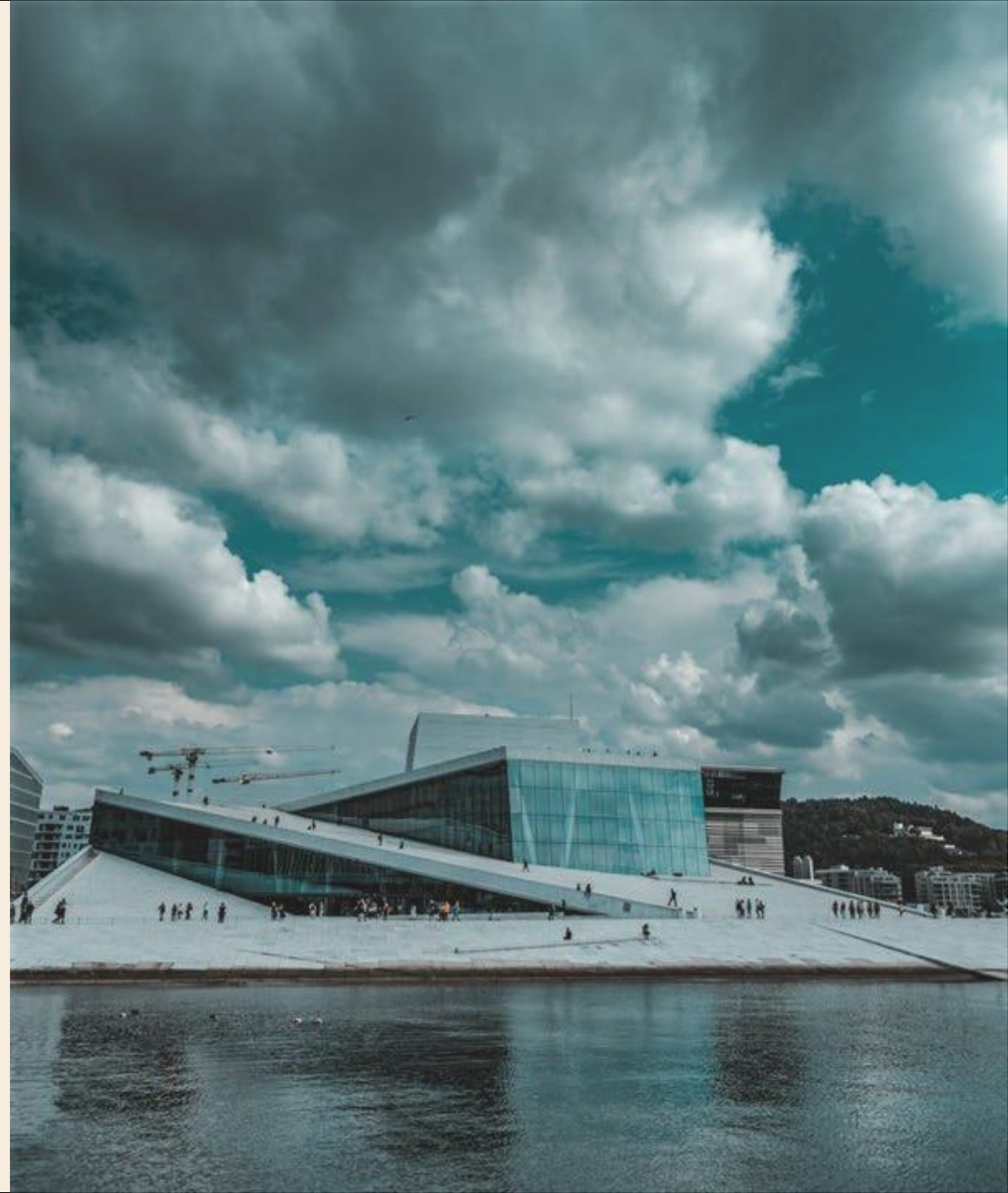


# GENERAL PRESENTATION AND DISCLOSURES

WEBINAR 17 June 2020



*Norsk RegnskapsStiftelse*



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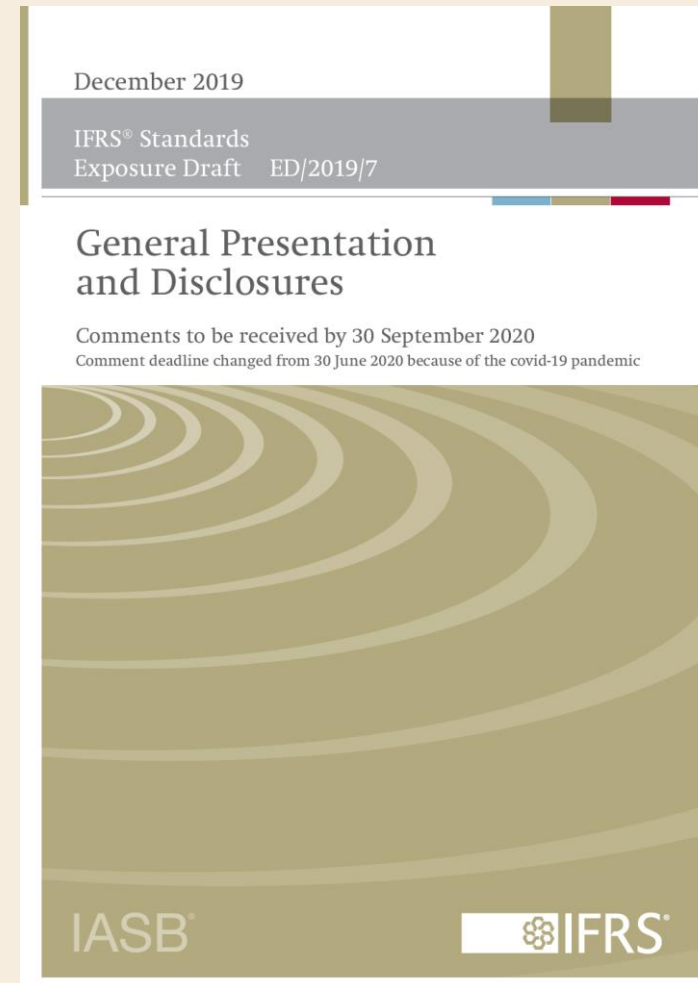
# Welcome

by

## Karina Vasstveit Hestås

Chair of Technical Committee on IFRS of

Norwegian Accounting Standards Board



# AGENDA

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## Timeline

Opening and welcome

Introduction by IASB and EFRAG

Debate on three key topics

Final Q&A and closing remarks

Ends 12:30

## Topics

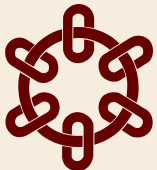
### Topic 1 – Income Statement

- Operating, investing and financing category
- Integral and non-integral associates and joint ventures
- Operating expenses by function or nature

### Topic 2 – Disclosures

- Management Performance Measures
- Unusual income and expenses

### Topic 3 – Cash flow statement



# PRESENTERS FROM THE IASB AND EFRAG

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**Françoise Flores**

IASB Board member



**Aida Vatrenjak**

IASB Technical Staff



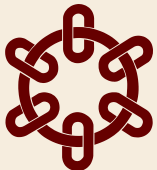
**Chiara Del Prete**

EFRAG TEG  
Chairwoman



**Erlend Kvaal**

EFRAG TEG



# PANELISTS

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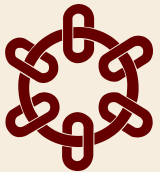
**Teodor Sveen-Nilsen**

SpareBank 1



**Morten Haukaas**

Equinor



# MODERATORS

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**Karina Vasstveit Hestås**

Norwegian Accounting Standards Board



**Kjell Ove Røsok**

Norwegian Accounting Standards Board



# SLIDO

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<https://www.sli.do/>

Event code: EFRAG-PFS

- Poll questions
- Chat for asking questions

Please enter Slido now and answer the first poll question!

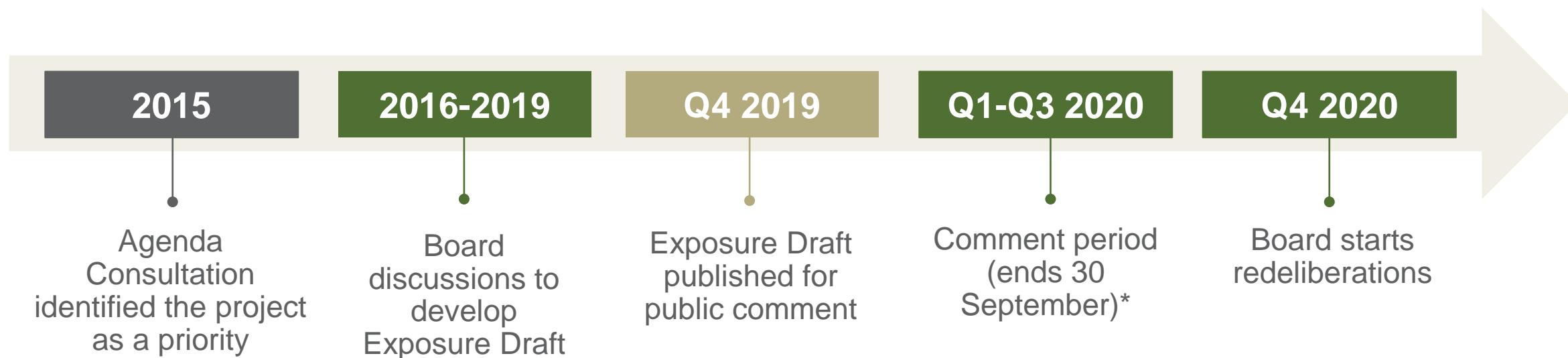


# Primary Financial Statements project



**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

<b>What users said</b> 	<b>Key proposals</b> 	<b>Expected benefits of proposals</b> 
<p>Structure and content of statements of profit or loss varies between different entities, making it difficult to compare entities' performance</p>	<p>Introduce <b>defined subtotals</b> in the statement of profit or loss</p>	<p>Additional relevant information and a P&amp;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 <b>disaggregating information</b></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 <b>management performance measures</b> in the notes.</p>	<p>Transparency &amp; 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 <b>statement of cash flows</b></p>	<p>Improved comparability between entities</p>

# EFRAG CONSULTATION AND JOINT FIELD-TEST

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- 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](mailto:info@efrag.org) by 31 July 2020.

## OVERVIEW OF EFRAG COMMENTS

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- 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
- 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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### Topic 2 – Disclosures

- Management Performance Measures
- Unusual income and expenses

### Topic 3 – Cash flow statement



# INCOME STATEMENT

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The operating, investing and financing category

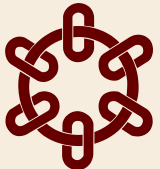
- Operating section and operating income – is it clear and relevant?

Operating expenses by function or nature

- Does one method always makes the information better and more understandable, or is there a case for a mixed model?

Integral and non-integral associates and joint ventures

- Is it relevant to split, and is this the most useful split of such investments?



## 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)	
<b>Operating profit</b>	<b>41,270</b>	
Share of profit or loss of integral associates and joint ventures	(600)	Integral associates and joint ventures
<b>Operating profit and income and expenses from integral associates and joint ventures</b>	<b>40,670</b>	
Share of profit or loss of non-integral associates and joint ventures	3,380	Investing
Dividend income	3,550	
<b>Profit before financing and income tax</b>	<b>47,600</b>	
Expenses from financing activities	(3,800)	Financing
Unwinding of discount on pension liabilities and provisions	(3,000)	
<b>Profit before tax</b>	<b>40,800</b>	
Income tax	(7,200)	
<b>Profit for the year</b>	<b>33,600</b>	

# Analysis of operating expenses

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## 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 1: OPERATING, INVESTING AND FINANCING CATEGORY

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### NEW STRUCTURE OF THE INCOME STATEMENT

- 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 the Operating profit or loss and how this subtotal is calculated
- Dividing financing/investing has to be tested in practice – there is an element of conventional allocation in it
- EFRAG is seeking views on whether the financing category should include:
  - income/costs from cash and cash equivalents; and
  - time value of money

## TOPIC 1: OPERATING, INVESTING AND FINANCING CATEGORY

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### NEW STRUCTURE OF THE INCOME STATEMENT

- 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
- For “conglomerates” EFRAG is seeking views on whether more guidance is needed for the presentation of revenues and costs when they are allocated to different business activities on the face, including consistency with IFRS 8 Operating Segments and disclosure on judgement on the allocation process
- For financial institutions EFRAG agrees to classify the financing components in the operating category. However EFRAG has reservation on presenting gains and losses on derivatives in the investing category and considers that the option for entities such as manufacturer providing financing to customers not to present a separate financing category is only relevant when providing financing to customers is the dominating business activity.
- The proposals will in practice have to interact with existing regulatory frameworks on presentation of financial statements

## TOPIC 1: NEW STRUCTURE FOR THE INCOME STATEMENT

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### INTEGRAL AND NON-INTEGRAL ASSOCIATES AND JOINT VENTURES

- EFRAG's research 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
- 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
- However, EFRAG highlights that such presentation will involve significant judgement and needs to be tested in practice.
- EFRAG seeks views on:
  - Do you consider that the IASB needs to expand the new paragraph 20D of IFRS 12, for example to include additional indicators, to reduce the level of judgement involved when making a distinction between integral and non-integral entities?
  - Do you consider that it would be useful to separately present or disclose the income tax related to associates and joint-ventures accounted for under the equity method?

## TOPIC 1: NEW STRUCTURE FOR THE INCOME STATEMENT

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### ANALYSIS OF OPERATING EXPENSES BY FUNCTION OR BY NATURE

- 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
- 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.
- EFRAG seeks views on:
  - Do you consider that it is useful to have disclosures by nature in a 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)?

## Topic 1: Structure of the income statement, including subtotals and categories

- **General comments**
  - Consider cost of change vs value added for users
  - 18-24 months implementation period challenging if system changes is required
  - Comparability important, but predominantly against peers (industry)
- **Subtotals and categories**
  - Proposal reduces risk of unclear definitions and inconsistent use of subtotals
  - Subtotals matter and represent information used by decision makers (company/industry specific)
- **Integral vs non-integral associates and joint ventures**
  - Integral vs non-integral not aligned with main business and will not be helpful in our industry
- **Opex by function or by nature**
  - Judgmental what is most useful for users and mixed model served the industry well
  - GAAP differences

## Topic 1 – Income Statement (+cash flow comments due to time constraints)

- **General comments for financial reporting – factors that are important seen from a stock analyst’s perspective**
  - » Consistent reporting over time on the same parameters
  - » Do not hide information in text, use tables
  - » Use reporting format roughly as peers (e.g.: gross profit vs. depreciation)
  
- **Subtotals and categories**
  - » Definition of subtotals important (e.g. operating profit, although users often refer to EBTIDA and EBIT)
  - » Definition of EBITDA probably more important compared to two types of “operating profit”
  - » Most important: Consistency within the same sector

## Topic 1, continued – Income Statement (+cash flow comments due to time constraints)

- **Integral vs. non-integral joint ventures:**

- » Unclear if integral vs. non-integral will be defined equally across sectors and companies
- » Integral vs. non-integral less important. Type of underlying business more important (e.g., performance of oil companies' investments more driven by oil price than other factors?)
- » JV with same underlying exposure (e.g., prices for a certain product): High up in income statement
- » JV with different underlying exposure: Lower in income statement
- » Key issue: Which multiples should be assigned to different earnings?

- **Opex by function or by nature**

- » Nature maybe most intuitive
  - At least for natural resources
  - By nature = easier to understand underlying business vs. function (?)
- » Consistency within peer group most important. Overall, no strong view.

- **Cash flow**

- » IASB's prefer choice of starting at operating profit makes sense. A consistent starting point is user friendly.
- » Operating profit as starting point better than net profit (tax, non-cash interest) for operational cash flow
- » JV cash flows challenging: Good arguments for including in operating cash flow if: 1) JV has same underlying business risk as company, 2) earnings are recurring.

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### Topic 2 – Disclosures

- **Management Performance Measures**
- **Unusual income and expenses**

### Topic 3 – Cash flow statement





# DISCLOSURES

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## Management Performance Measures

- Should the financial statements include management performance measures?
- Proposed regulation covers combinations of income and expenses only, not elements of assets and liabilities, or ratios. Is this the right group of elements
- How does the proposed regulation interact with the ESMA regulations on APMs?

## Unusual income and expenses

- Will separate disclosure of unusual income and expenses improve the reporting?



# Management performance measures (MPMs)

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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

## MPM improvements compared to current situation

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Location	Management performance measures and related disclosures would be in a single location* in the notes to the financial statements, rather than scattered across public communications or on the face.
Audit	Including MPMs in financial statements is expected to bring such measures into the scope of audit.
Content of disclosures	The proposed disclosure requirements are similar to existing regulatory guidance. However, the disclosure of tax & NCI effects is likely to be new.
Consistency across countries	Management performance measures would be subject to the same requirements regardless of the entity's jurisdiction.

\*Measures that do not meet the definition of an MPM (see previous slide) would not be affected by the proposals.

# 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 2 – Management performance measures

- MPMs are important for understanding the business and making reasonable estimates for future earnings!
- Consistent reporting over time is important
- “Adjusted operating profit”: Reconciliation! Understanding adjustments is critical to be able to estimate recurring earnings

## TOPIC 2: MANAGEMENT PERFORMANCE MEASURES

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### THE USE AND SCOPE OF 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 2: MANAGEMENT PERFORMANCE MEASURES

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### HOW THE IASB'S PROPOSALS INTERACT WITH THE ESMA REGULATIONS ON APMS?

- In its Draft Comment Letter, EFRAG points out the differences between Alternative Performance Measures, as defined in ESMA Guidelines on Alternative Performance Measures (ESMA/2015/1415) (ESMA APM Guidelines), and Management Performance Measures. For example:
  - The term APM as defined by ESMA is broader than the term MPM as defined by the IASB as APMs include financial measures of historical or future financial performance, financial position or cash flows other than a financial measure defined or specified in the applicable financial reporting framework. MPMs only include subtotals of income and expenses
  - On the other hand, the application scope of ESMA APM Guidelines is narrower because the guidelines only apply to the information published in prospectuses, supplements to prospectuses, and regulated information which is understood as management reports disclosed to the market in accordance with the Transparency Directive, and disclosures issued under the requirements of article 17 of the Market Abuse Regulation; whereas the scope of IASB's proposals regarding MPMs apply to all public communication.



## TOPIC 2: UNUSUAL INCOME AND EXPENSES

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### WILL SEPARATE DISCLOSURE OF UNUSUAL INCOME AND EXPENSES IMPROVE THE REPORTING?

- 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

## Topic 2: Management Performance Measures and unusual income and expenses

- **Management Performance Measures**

- Will inclusion of MPMs provide helpful information or add uncertainty to reported numbers? (IFRS / MPM's / APMs / unusual items)
- Norway already covered by ESMA regulations on APMs

- **Unusual items**

- Vague and narrow definition subject to judgment
- Unusual items versus other events with significant impact in the quarter

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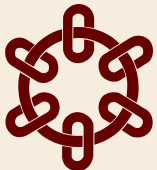
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### Topic 3 – Cash flow statement



# The statement of cash flows

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## Changes in cash flow statement

- How will the changes improve the reporting?



# 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 3: STATEMENT OF CASH FLOWS

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- 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 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

Q & A



# Thank you for attending!

Comments can be sent to: [nrs@revisorforeningen.no](mailto:nrs@revisorforeningen.no)

Express your views to EFRAG [here](#)

