EFRAG/IASB Outreach ED *General Presentation and Disclosures*

Peter Sampers

Chairman Dutch Accounting Standards Board

16 September 2020

EFRAG
European Financial Reporting Advisory Group

RJ RAAD VOOR DE JAARVERSLAGGEVING

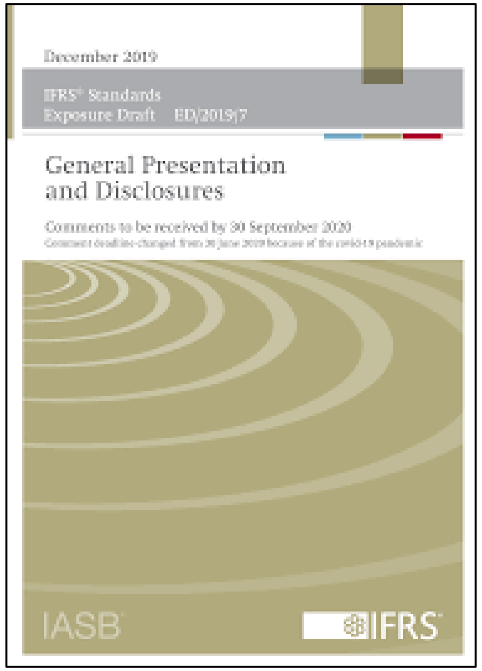
IFRS®

Welcome!


Bienvenue
Willkommen
добро пожаловать
Welcome
yôkoso
welkom
Benvenuto
Bienvenida
tervetuloa
รับเสด็จ
欢迎

It all started in Amsterdam

- 27 June 2013
- Breaking the boilerplate
- Hans Hoogervorst announced a 10 point plan to “make disclosures less indiscriminate and more meaningful”



Programme for today

12:00 Opening and welcome by **Peter Sampers,** Chair of the Dutch Accounting Standards Board (DASB)/ Raad voor de Jaarverslaggeving (RJ)

12:10 **Nick Anderson**, IASB Member and **Aida Vatrenjak**, IASB Technical staff to provide an overview of the IASB proposals in the Exposure Draft *General Presentation and Disclosures* on the topics selected

Chiara Del Prete, EFRAG TEG Chairwoman to explain the EFRAG preliminary position on the topics selected

Peter Sampers to explain the DASB preliminary position on the topics selected

The Dutch user and preparer's perspectives on the topics will be provided by the panel:

- **Martijn Bos,** member EFRAG User Panel, Policy Advisor Reporting & Audit, Eumedion
- **Ernesto Escarabajal Baadenhuijsen**, Accounting Policies R&D Manager, Shell
- **Dennis Jullens,** member EFRAG User Panel, Lecturer Accounting & Finance, University of Amsterdam
- **Laurine Lemon,** Director Accounting Policies and IFRS, DSM

Filipe Alves, EFRAG Senior Technical Manager will seek input from the stakeholders and moderate the polling questions

Topic 1: Classification of income and expenses

Topic 2: Integral or non-integral associates and joint ventures

Topic 3: Analysis of expenses by function and by nature

Topic 4: Disclosures on management performance measures and unusual items

14:45 Closing remarks and main takeaways by Gerard van Santen, Partner Assurance EY Netherlands

15:00 End of the webinar

Introduction

PRESENTERS AND MODERATORS

Chiara Del Prete
EFRAG TEG Chairwoman

Nick Anderson
IASB Board Member

Peter Samper
Chair of the Dutch Accounting Standards Board (DASB)

Aida Vatrenjak
IASB Technical Staff

Filipe Alves
EFRAG Senior Technical Manager

SPEAKERS

Martijn Bos
member EFRAG User Panel, Policy Advisor Reporting & Audit, Eumedion

Ernesto Escarabajal Baadenhuijsen
Accounting Policies R&D Manager, Shell

Dennis Jullens,
member EFRAG User Panel, Lecturer Accounting & Finance, University of Amsterdam

Laurine Lemon,
Director Accounting Policies and IFRS, DSM

Gerard van Santen
Partner Assurance EY Netherlands

What has the Board heard?

Companies should provide **more granular** information….

Subtotals in the statement of profit or loss need to be **comparable**

….and **information grouped** in a way that provides better inputs for investor analysis

Management-defined performance measures provide useful information, but more **transparency** is required

How do the Board's proposals respond?

Require additional defined subtotals in the statement of profit or loss	Three new required subtotals in the statement of profit or loss	Items of income and expense included in "operating" when part of main business activities
Strengthen requirements for disaggregating information	Principles for aggregation & disaggregation	Improvements to analysis of operating expenses Disclosure of unusual income and expenses
Require disclosures about management performance measures	Management performance measures and related disclosures located in a single note	Reconciliation required to the most directly comparable subtotal/total specified by IFRS Standards

Project status

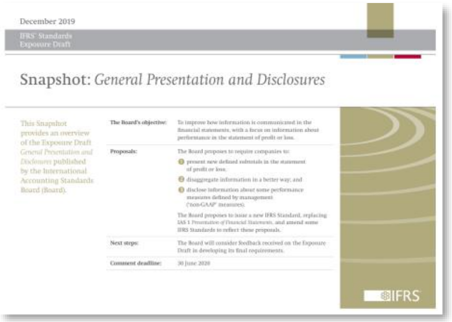
Consultation

Q4 2019	Q1–Q3 2020	Q4 2020
Exposure Draft published for public comment	Comment period (ends 30 September)*	Board considers feedback

The proposals, if finalised, would result in a new Standard and replace IAS 1 *Presentation of Financial Statements*.

Published materials

Exposure Draft & Illustrative Examples



Snapshot

Video and webinars

*Extended from 30 June due to covid-19 pandemic.

EFRAG INITIAL POSITION

EFRAG DUE PROCESS AND GENERAL POSITION

- EFRAG published its Draft Comment Letter on 24 February 2020
- Comment letters are **welcome by 28 September 2020**.
- Final position after considering the input from outreaches, field-test and comment letters
- EFRAG **welcomes** the IASB’s proposals 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 considered that the IASB’s proposals in this ED would properly address this request
- EFRAG also **agrees** with the IASB's proposal to update current requirements through issuing a **new IFRS Standard**, even if the IASB focused mainly 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

EFRAG CONSULTATION

EFRAG OUTREACH ACTIVITIES AND FIELD-TESTING

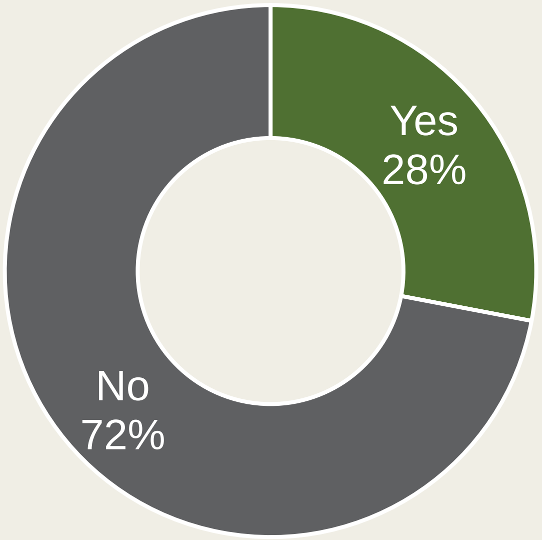
- **Outreach events** with different types of European stakeholders (including users, preparers and NSS) and different jurisdictions have been converted into **public webinars and online events**, with technical support of EFRAG Secretariat
- **Field test with preparers** in coordination with European National Standard Setters and the IASB
  - identify implementation and application concerns
  - determine whether there is a need for additional guidance
  - estimate the effort required to implement and apply the proposals.

Classification of income and expenses

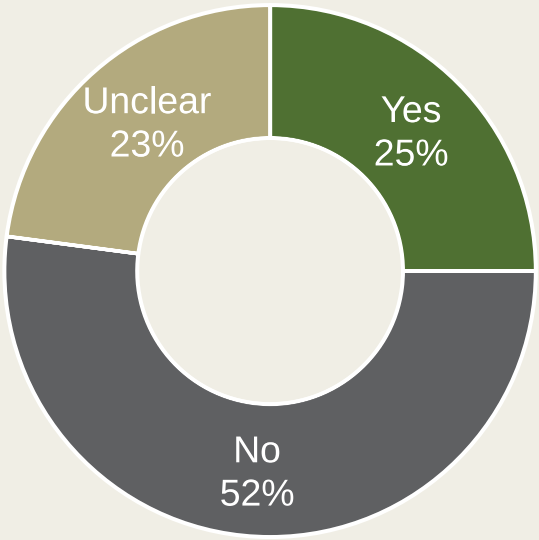
Profit or loss statement subtotals

Current practice: Same headings, different meanings

Share of profit or loss of associates and joint ventures included in operating profit?



Interest cost on defined benefit pension liabilities included in operating profit?



In a sample of 100 companies, we found that 63 companies reported operating profit in the financial statements, **using at least nine different definitions.**

IFRS

Subtotals: general corporate example

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**	

IFRS

Subtotals: investment and retail bank example

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
Net interest on net defined benefit liability	(1,000)
Profit before tax	39,600
Income tax expense	(11,200)
Profit for the year	28,400

all expenses from financing activities 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 1: CLASSIFICATION OF INCOME AND EXPENSES

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: CLASSIFICATION OF INCOME AND EXPENSES

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

Presentation of associates and joint ventures

Presentation of associates and joint ventures

Different stakeholder views	My associates and JVs are a part of my main business, so I want to include my share of their results in operating profit. The share of associates' and JVs' profit is after financing and after tax so I want to analyse them separately from operating profit.
Proposal—balanced approach	• **exclude** income and expenses from **all** equity-accounted associates and joint ventures from operating profit. • identify which of equity-accounted associates and joint ventures are closely related ('**integral**') to their main business activities, ie do not **generate returns independently**. • income and expenses from integral associates and joint ventures would be presented **immediately below operating profit**. Income and expenses from **non-integral** associates and JVs, ie those meeting definition of income and expenses from investments, would be presented in the **investing** category.

TOPIC 2: INTEGRAL AND NON-INTEGRAL ASSOCIATES AND JOINT VENTURES

SEPARATE PRESENTATION OF INTEGRAL AND NON-INTEGRAL

- 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?

Analysis of expenses

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 3: ANALYSIS OF OPERATING EXPENSES BY FUNCTION OR BY NATURE

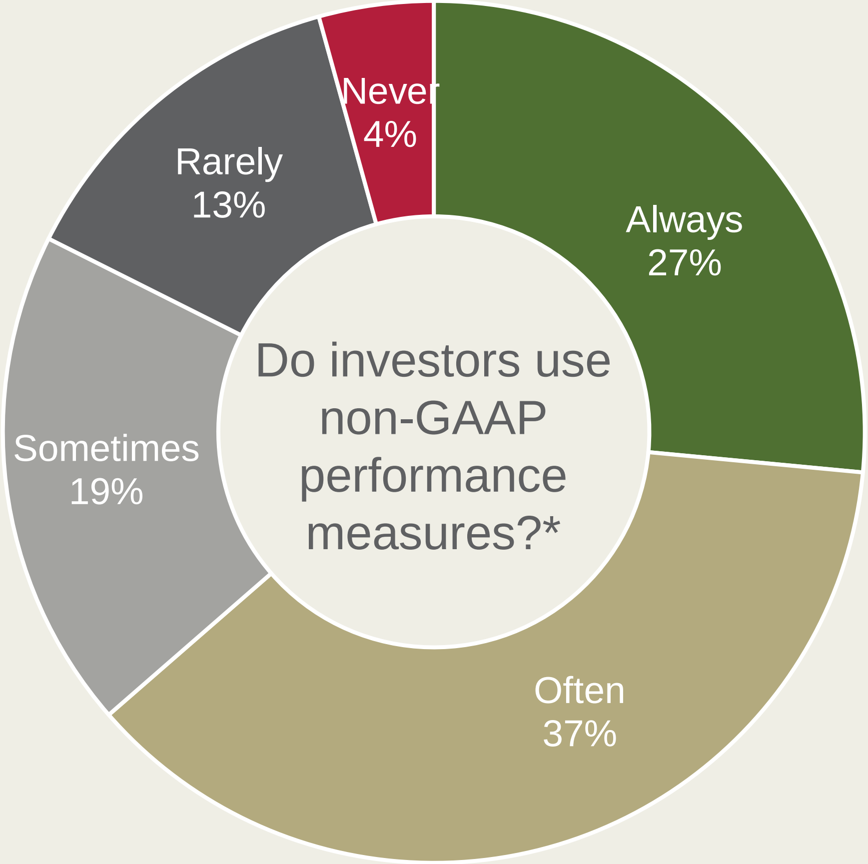
BY FUNCTION OR BY NATURE

- 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)?

Management performance measures and unusual items

Non-GAAP performance measures

Investors find these measures useful… but seek greater transparency



*CFA Institute, 2016

> When analysing compliance with the Guidelines, overall ESMA observed a good level of compliance in relation to the principles on comparatives, consistency and unbiased nature of the APMs reported. On the other hand, shortcomings were identified in relation to compliance with the principles regarding explanations, reconciliations and definitions.

Report on the use of Alternative Performance Measures and on the compliance with ESMA's APM Guidelines, 2019

Management performance measures (MPMs)

Disclosure in the single note 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

The proposed disclosure requirements are similar to existing regulatory guidance.

The disclosure of tax & NCI effects is likely to be new for most but not all entities.

MPMs would be subject to the same requirements regardless of the entity's jurisdiction.

Including MPMs in financial statements is expected to bring such measures into the scope of audit.

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

EBITDA

The Board is proposing not to define EBITDA

- The Board could not identify a single underpinning concept.
- Not used in some industries.
- Calculation is diverse in practice.

The Board is proposing to define ‘operating profit before depreciation and amortisation’

- Would be allowed but not required to be reported.
- If used, no MPM disclosures would be required for this measure.
- The Board has not labelled it ‘EBITDA’ because its content does not match what the acronym ‘EBITDA’ stands for.

Example of MPM reconciliation in the notes

Adjusted operating profit (MPM)	52,870	Tax	NCI
Restructuring in Country X	(5,400)	900	(1,020)
Revenue adjustment	(6,200)	1,550	-
Operating profit (IFRS-specified)	41,270		

- The proposed disclosure requirements are similar to existing regulatory guidance.
- The disclosure of tax & NCI effects is likely to be new for most but not all entities.
- Management performance measures would be subject to the same requirements regardless of the entity’s jurisdiction.
- Including MPMs in financial statements is expected to bring such measures into the scope of audit.

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 4: MANAGEMENT PERFORMANCE MEASURES

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 4: MANAGEMENT PERFORMANCE MEASURES

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 4: UNUSUAL INCOME AND EXPENSES

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

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Thank you

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