

PRIMARY FINANCIAL STATEMENTS SUMMARY REPORT

16 September 2020



Introduction

In order to receive input from Dutch constituents and to stimulate the discussion around the IASB® Exposure Draft on *General Presentation and Disclosures* ('the ED'), the DASB, EFRAG and the IASB organised a joint outreach online event on 16 September 2020. This report has been prepared for the convenience of European constituents to summarise the event and will be further considered by the involved organisations in the respective due process on the IASB proposal.

The program of the event can be consulted [here](#) and the speaker's bio's – [here](#).

Peter Sampers, welcomed participants, introduced the panellists, and provided an overview of the agenda, consisting of the four main topics:

- Classification of income and expenses;
- Integral or non-integral associates and joint ventures;
- Analysis of expenses by function and by nature; and
- Disclosures on management performance measures and unusual items.

For each of the above topics the IASB representatives introduced the proposals, the EFRAG representatives presented EFRAG preliminary position and the panellists participated in the discussion and provided their views. **Peter Sampers** also managed questions and responses from the audience.

The audience provided their views on the proposals as illustrated below through polling surveys and asked questions to the speakers (below reported as "SLIDO Q&A").

Nick Anderson, IASB Board member, introduced the IASB project *Primary Financial Statements* ('PFS'). In particular, he explained that the overall objective of the project was to improve the structure and content of primary financial statements with particular focus on the statement of profit or loss and with limited changes to the statement of cash flows. The IASB wanted also to improve the transparency and discipline on the use of management-defined performance measures.

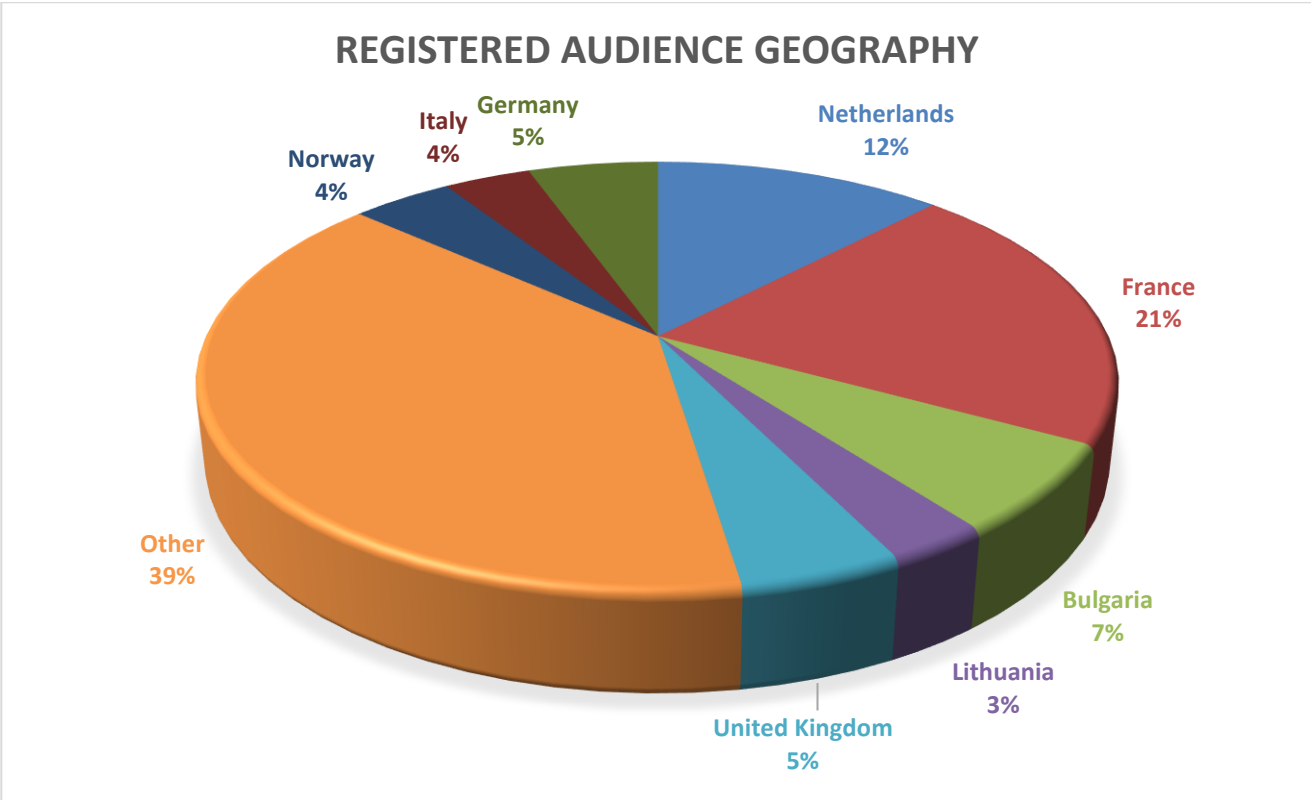
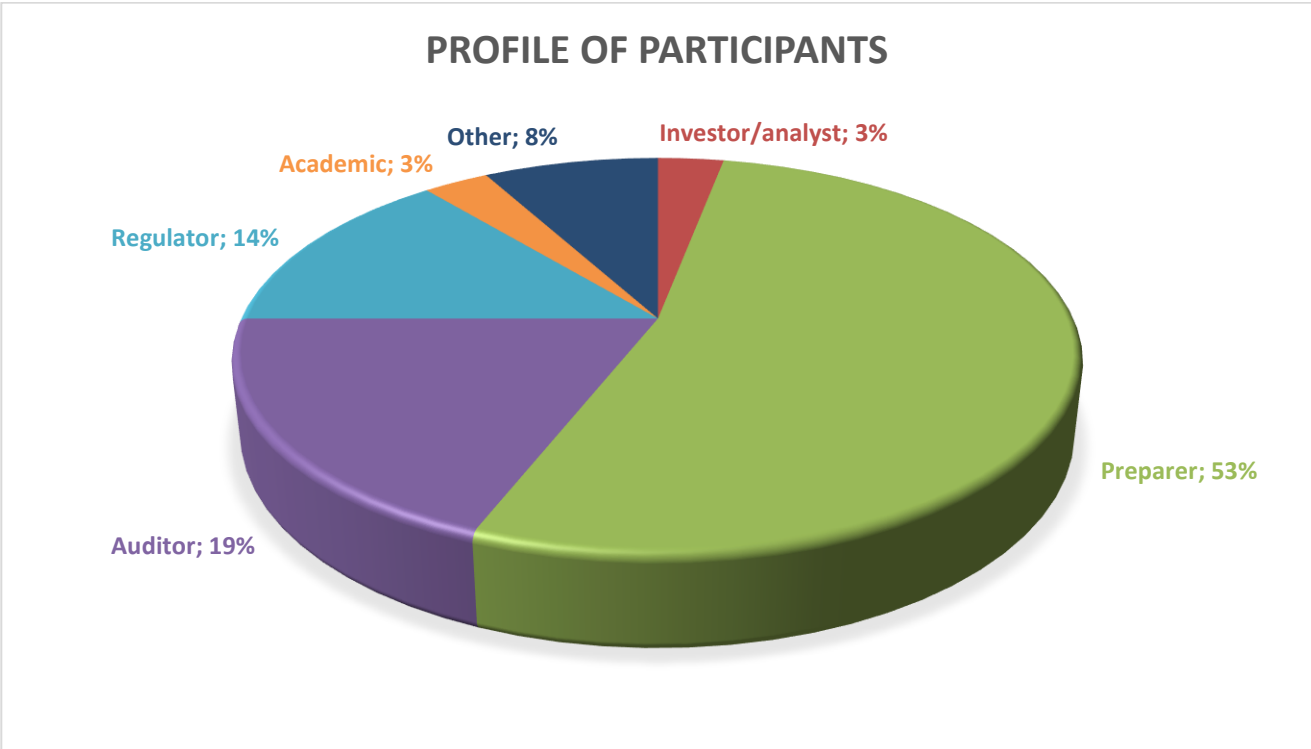
Chiara Del Prete, EFRAG TEG Chairwoman, thanked the Dutch Accounting Standards Board (DASB) for hosting this webinar on PFS, it was a fourth online event jointly organised by EFRAG, the IASB and another national standard-setting organization in response to the COVID-19 crisis and difficulties having physical outreaches.

EFRAG TEG Chairwoman welcomed the ED as a response to the long-lasting demand from users to improve the structure and content of the primary financial statements, presented EFRAG's tentative views on the IASB proposals and explained that the remarks in the EFRAG draft comment letter ('the DCL') intended to support the IASB in achieving a better result in practice. She reminded that the [EFRAG DCL](#) had been issued on 24 February 2020 and that input from European stakeholders was welcomed until 28 September 2020.

Chiara Del Prete considered the project to be a big achievement in modernising and streamlining the presentation of financial statements and noted a lot of potential in the IASB proposals. She also highlighted that EFRAG had made a number of suggestions and was asking for views of its constituents on specific topics, including some of the IASB proposals for which EFRAG did not yet form a view and will assess the constituents' feedback before taking a position in the final comment letter in order to contribute to a better final result.

Peter Sampers agreed that the new Standard was the best way to address the existing challenges, acknowledged that a lot of work had been done, including the field testing, and hoped that debates on the topics would help further elaborating the IASB proposals.

The profile of participants in the outreach event and their geography is summarised below:



Discussion

Topic 1: Classification of income and expenses

Nick Anderson and Aida Vatrenjak provided a brief overview of the IASB proposals on the classifications of income and expenses, subtotals and categories, including operating profit and explained that the IASB proposals were developed in response to the users' concerns about inconsistency and lack of comparability in financial statements.

Aida Vatrenjak noted that the overall feedback for the IASB proposals was supportive. She noted that for some entities the classification was driven by main business activity of the entity and that for example financial institutions could report in operating category income and expenses otherwise classified as financing or investing.

Chiara Del Prete presented EFRAG views on the IASB proposals. EFRAG TEG Charwoman welcomed the IASB efforts in introducing the new subtotals and categories, as improving comparability. She highlighted the importance to test how the proposals would work in practice and expressed some concerns about the absence of alignment of categories between profit and loss and cash flow statement. EFRAG was seeking views on the allocations of the income from cash and cash equivalents and time value of money to financing category and questioned the definition of the main business activity and how the proposals would work for conglomerates with multiple business activities.

Peter Sampers presented the IASB initial views on the IASB proposals which supported the clear definition of operating profit and highlighted the need for further guidance on the main business activities to make clear if it is connected to the ordinary activities of the entity or not.

He also noted that profit or loss and cash flow statement categories were not consistent and agreed that it was difficult to overcome this issue in a short term. He stressed that it should be clearly communicated that these concepts were not identical.

Further, **Peter Sampers** asked the opinion of users and preparers on these proposals and presented the panellists:

- **Laurine Lemon**, Director Accounting Policies and IFRS, DSM;
- **Ernesto Escarabajal Baadenhuijsen**, Accounting Policies R&D Manager, Shell;
- **Martijn Bos**, member EFRAG User Panel, Policy Advisor Reporting & Audit, Eumedion;
- **Dennis Jullens**, member EFRAG User Panel, Lecturer Accounting & Finance, University of Amsterdam; and
- **Gerard van Santen**, Partner Assurance EY Netherlands (for the wrap-up).

Martijn Bos considered the IASB project very favourable for investors, indeed contributing to better communication. He welcomed the residual approach for defining operating profit as it provided a solid basis for comparable reporting. He agreed that MPMs would continue to exist but did not share EFRAG view that it was problematic as 'MPMs were not bad'. He considered that proposals to require reconciliations for MPMs were adding to the understanding of investors.

He added that the proposals for aggregation and disaggregation will further enhance investors' understanding of the reporting entity.

Ernesto Escarabajal Baadenhuijsen welcomed the IASB proposals as creating consistency and comparability. In his view, the reclassifications within profit or loss were relatively simple and required low investments. He questioned if financing was an appropriate category for the accretion of provisions,

and the income from cash and cash equivalents, although not material giving the low interest rates, and did not expect any additional MPMs to follow from the IASB proposals.

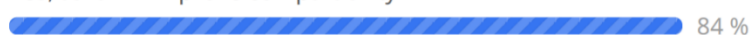
Laurine Lemon noted that in her opinion, profit or loss presentation would not substantially change as many concepts were already applied. She did not expect any problems with MPMs and considered that the IASB proposals provided more clarity.

Dennis Jullens explained that analysts were using a model to translate forecasted operating profit into the value of the business. He considered that the IASB proposals were helpful for analysts' forecasts by classifying operating, financing and investing items on the face of the income statement and that presenting the results of associates and joint ventures outside the operating profit was a step forward. He also supported allocating the income from cash and cash equivalents to financing category as it was treated in the same way as pension deficit for the analytical purposes.

Peter Sampers presented the polling question on the topic which showed the overwhelming support of the audience to the IASB proposals.

Question 2 - Do you think that the new required allocation (operating, investing and financing) of items in the subtotals will result in better information? 0 3 8

Yes, as it will improve comparability



No, as it will impose uniformity and reduce the space for entity specific allocations



I do not know



Nick Anderson commented that he was pleased to see the results, confirming that the proposals were very well received by users.

Chiara Del Prete added that since the majority of the audience were the preparers it was a good sign of acceptance of the proposals.

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

Nick Anderson provided a brief overview of the IASB proposals on the topic. He explained that the IASB proposals were a response to the mixed feedback received from users and preparers. The key message from investors was that they did not want to see the share of associates and joint ventures in operating results, however the preparers insisted that sometimes these associates and joint ventures could be integral to the company's operations and should, therefore, be included in operating results. Therefore, the IASB decided to include two separate line items which would allow a separate presentation of integral and non-integral associates and joint ventures.

Chiara Del Prete noted that EFRAG's research had confirmed the diversity in practice in classification of the results of associates and joint ventures and agreed with the need to remediate it. She also highlighted a judgement involved in defining what was integral and what was not and the necessity to test how it would work in practice.

She noted that the feedback from field tests highlighted the challenges of this definition and its interactions with the definition of main business activity. She also questioned the usefulness of the proposed disclosures of tax effects to users and their feasibility for preparers.

Peter Sampers noted that the judgement was not bad or good by itself as long as it was informative for investors. He considered that current definition might be too restrictive and, therefore, to ringfence the choice of management.

Ernesto Escarabajal Baadenhuijsen explained that the associates and joint ventures were a major component of his company's business. He noted that the IASB proposals would not work in all the cases and some joint ventures and associates would not be classified as integral, although they were considered as such by the management and that the resulting classification will be wrong. He preferred to have less strict and principle-based definition which would provide a right insight in the entity's business.

He found inconsistent the IASB proposal to classify the dividends from the integral associates and joint ventures as investing activities in the cash flow statement, as they were more of an operating nature in the case of his company. He noted that performing the integral – non-integral classification will be doable but will result in a lot of work.

Martijn Bos welcomed the IASB proposals to exclude the results of associates and joint ventures from operating profit because analysts wanted to relate an entity's operating income to its revenues. He did not support a separate subtotal on the face of financial statements with distinction between integral and non-integral associates and joint ventures. In his opinion, such binary distinction was not asked for by investors and its usefulness was questionable. Those companies that wish to make such distinction could do so by including it as an MPM.

Dennis Jullens agreed with **Martijn Bos** that the results of associates and joint ventures should be presented outside of operating profit. He also believed that separate presentation of integral - non-integral will not give any added value to the analysts and investors as they value the business as a whole.

Laurine Lemon considered that the split between integral and non-integral was possible to make but doubted that it would be useful to users. She also believed that classifying the investment as non-integral could raise a question of why a company invested in something which was not supportive to its business or give a wrong message to the investee and its employees that it would be sold. She also did not consider that the users were having a need in this information.

Peter Sampers asked a next question to the audience.

Question 3 - Do you agree that the results from associates and joint ventures should be presented separately in two different categories of the income statement?

037

Aida Vatrenjak noted that this feedback confirmed that the IASB proposal reflected split views of users and preparers.

Yes, I agree with the IASB's proposal
 22 %

Yes, but I would prefer another split than integral versus non-integral
 11 %

No, all results should be presented in operating category
 16 %

No, all results should be presented in investing category
 46 %

I do not know
 5 %

Dennis Jullens agreed that it was a sensitive question for companies.

Nick Anderson explained that the differential between integral and non-integral was not particularly welcome and now the IASB may need to reconsider this proposal.

SLIDO Q&A: Do you expect to also publish an example for insurance companies like you did for banks? Especially thinking of IFRS 17...

Aida Vatrenjak replied that ED had illustrative examples, including the example of insurance entity. She highlighted that these examples were not templates, but only guidance and, therefore, not mandatory.

SLIDO Q&A: *When splitting in categories like Operating, Investing and Financing, will this also apply to effects of foreign currency exchange results?*

Aida Vatrenjak explained that all income and expenses were affected and the rules also applied to forex results. She further added that the feedback received by the IASB showed that it would be quite difficult and costly to apply.

However, **Laurine Lemon** and **Ernesto Escarabajal Baadenhuijsen** confirmed that their companies were already making this split, without encountering particular difficulties.

SLIDO Q&A: *Should associates and joint ventures which are involved in a potentially strategic technology (but having no link with today's operations) be considered integral?*

Nick Anderson replied that it would not be considered as integral according to the proposed requirements, but the IASB already heard the similar feedback from companies that the management's intent should be taken into consideration.

SLIDO Q&A: *If all results from associates and joint ventures are investing, wouldn't you miss part of operations if O&G structures all upstream activities through joint ventures (e.g. risk-sharing)?*

Nick Anderson agreed and noted the current mixed treatment of associates and joint ventures. He reminded of a clear message from users not to have these results in operating section.

Chiara Del Prete concluded that the results were consistent with outcome of previous discussions. She noted an interesting proposal to move the split of integral and non-integral in disclosures and to have more indicators-based and not rule-based approach for the distinction.

Topic 3: Analysis of expenses by function and by nature

Aida Vatrenjak explained that the IASB proposals on aggregation and disaggregation arisen from users' feedback that sometimes the information in financial statements was not grouped in a way that provided useful information. The prohibition of the mix of the two methods (by function and by nature) was a response to users' concerns of not knowing which line items were complete if the entity used a mixed presentation. She further explained that minimum line items were an exception from this prohibition. She continued that users found analysis of expenses by nature always useful for forecasting and, driven by this feedback, the proposals would require to disclose this analysis in the notes. She reminded that this analysis was currently required today, but companies disclosed only some line items.

Chiara Del Prete presented the EFRAG's view on the IASB proposals. She asked for the reasons of having a disclosure by nature if management decided that presentation by function was the most useful. EFRAG TEG Chairwoman questioned whether the mix presentation should be allowed, especially in conjunction with the minimum line items permitted or should the by function presentation be strict without minimum line items. She also questioned how some specific costs: restructuring, goodwill impairment, etc should be classified.

Peter Sampers highlighted the importance of transparency and that clean analysis by nature should be available either in the notes or on the face of the income statement. He also noted that some DASB members considered that a mix presentation should also be allowed.

Laurine Lemon explained that preparers used functional presentation for a reason, as an industry standard for example. She considered that it would be impactful to provide the disclosures by nature, especially if it was not the way how these expenses were recorded in the entity's financial systems. She highlighted that her company, despite having a close contact with investors, had never received a request for an additional by nature disclosure of the costs. She considered that her company would be significantly impacted by the IASB proposals on by nature presentation.

Dennis Jullens added that in addition to by nature presentation required, he would also support a mix presentation as it would be more insightful, by allowing to separately disclose an impairment or restructuring charges.

Martijn Bos noted that comparability was very important, but heavily impaired if a company reported by function. Putting the income statement by nature in the notes was not a great solution for investors, as such presentation would lack the insight that many of the notes normally do provide. Investors would prefer a mandatory presentation by nature. Other types of presentation (by function or mix) can be allowed to be optionally presented in the notes. In his opinion, it would be much more comparable and easier for forecasting, but he acknowledged that it would be a big change for many corporates and the costs of this proposal would be high.

He continued that if the IASB were to allow a mixed presentation, it could require a 'shielded' mix presentation where it would be clear where, for example, depreciation was presented. He stressed that, in his view, the best solution would be requiring a presentation by nature on the face of the income statement.

Ernesto Escarabajal Baadenhuijsen explained that his company was currently using a mix model, presenting by function with depreciation presented separately. He questioned that if they need to change than they have two choices: either to present by nature, which is not the best presentation for their industry, or to allocate depreciation. However, there was a very little guidance on the allocation principles. He noted that their US counterparts could continue to have mix presentation. He continued that it would be very costly and challenging to change the accounting, as it was a mix of by nature and by function accounts in the accounting systems. To apply the IASB proposals the whole general ledger structure of his company should be rebuilt and the added value of this would be questionable.

SLIDO Q&A: *How does the prohibition of mixing methods interact with the requirement of paragraph 42 and paragraph B15? Seems to contradict.*

Aida Vatrenjak explained that the intent of the ED was that it would not be permitted as a line item if it breaks by function or by nature approach. She noted, however, that minimum line items list could be expanded in the final Standard.

SLIDO Q&A: *The 'by function' allocation of operating expenses requires significant judgement. Would further guidance be needed to ensure consistency across companies? Including impairment?*

Ernesto Escarabajal Baadenhuijsen responded that in his company impairment charges were grouped together with amortisation expenses and that there was very limited guidance from the IASB on allocation of the income and expenses by function, but it would be helpful to obtain consistency.

Laurine Lemon noted that there was always an element of judgement, in her company they had developed internal accounting policies and definitions and did not need any additional guidance.

SLIDO Q&A: *When entities present by function are there line items allowed to be presented separately such as depreciation and amortisation? What about allowing a mix model?*

Nick Anderson acknowledged that the IASB heard that it would be very costly for preparers to disclose an analysis of expenses by nature when the presentation on the face of the income statement is by function, but the IASB had also heard strong demand from European users for information about operating expenses by nature.

Chiara Del Prete noted the impact for preparers would depend on a starting point and that comparability was impacted by the choice of by nature or by function on the face of the income statement.

Topic 4: Disclosures on management performance measures and unusual items

Nick Anderson provided an overview of the MPMs: key non-GAAP MPMs are important to users but are today scattered all over the reporting. The IASB proposals were built on the ESMA guidelines and the MPMs should be included in a single note, to be easy for investors to find and should also be audited to ensure more transparency.

Aida Vatrenjak summarised the IASB proposals on unusual income and expenses. Users have problems with identifying unusual, non-recurring items. Therefore, the IASB decided to provide a single definition of unusual as income and expenses with a limited predictive value. Benefit of this proposal would be completeness. She also noted that there was an expectation in practice that unusual items might be adjusting items for MPMs.

Chiara Del Prete noted this was one of the most debated proposals. EFRAG suggested broadening the scope of the definition of MPMs and to include other ratios or balance sheet measures, as the IASB proposal would only provide a partial depiction of entity performance. The reconciliations with the MPMs used in public communications were seen as too broad in scope. Instead, EFRAG proposed to limit the requirements to MPMs that an entity chosen to disclose in financial statements and management commentary. Also, EFRAG proposed to include the reconciliations with all the indicators included in a public communication to be released together with the financial report. In addition, she noted that there was uncertainty whether the IASB proposals could lead to an increase or a decrease in the number of MPMs being used.

Finally, she welcomed the IASB efforts to define unusual income and expenses and to disclose them in the notes but suggested that the definition of unusual income and expenses could be further refined.

Peter Sampers noted that the IASB supported the use of MPMs as proposed by the IASB but was concerned about the narrow current definition. He considered that regulators can decide which MPMs to consider, those in the financial statements or those in the management commentary. He questioned whether the new definition of unusual items was aligned with the definition of material items in income and expense in paragraph 97 of IAS 1 *Presentation of Financial Statements*.

Dennis Jullens supported the use of MPMs and the reconciliations to IFRS subtotals as proposed by the IASB. He was concerned how non-IFRS metrics like return on net debt could be aligned with the IFRS subtotals as they were not easily reconcilable. With regard to unusual items he suggested to provide the option to show more disaggregated information which would remove the requirement to define unusual items. If the IASB would proceed with the definition of unusual items, then it should be

broader, but more disaggregation was his preferred route, because it allowed analysts to take their own decisions of what was 'unusual' based on the more granular information provided by companies.

Martijn Bos mentioned that investors not only rely on financial statements, but equally on investor presentations and other publications by companies. He felt shielded by the proposed requirements that MPMs communicated outside of financial statements should be included in the financial statements and will, therefore, be audited. He was wary of unintended consequences though. For example, if a company also used US GAAP, he thought it would not be useful to reconcile all these numbers to IFRS in the proposed single note. Also, there may be valid reasons to exclude regulatory reporting and other mandatory frameworks from the reconciliation. With regard to unusual items he suggested the IASB to look for reciprocity in identifying unusual income and expenses as some companies seem to find it more difficult to identify unusual incomes than unusual expenses.

Ernesto Escarabajal Baadenhuijsen was supportive of the transparency aimed for by the requirements but noted that the reconciliation requirements were already present in ESMA and US guidance. In his view if MPMs were already presented in the annual report, a waiver of the requirement maybe helpful. He struggled with the definition of unusual items as 'items which would not arise in several future reporting periods'. For example, impairments, disposals, inventory write-downs happen almost every year, so if they are excluded, his company would not have any unusual items left. In his view the proposed identification of unusual items would not give additional insights on the reporting.

Laurine Lemon noted that the IASB proposals were not a huge change from what was currently requested by the ESMA 2015 guidelines, which her company implemented by putting all the APMs in one place together with their reconciliations and it was already audited. Therefore, she did not see a problem to implement the IASB proposal as it was.

On unusual items she was concerned about the definition being too limited and added that it should address both income and expense.

Question 6 - Should unusual items be disclosed in a separate note as proposed by the IASB?

031

Yes

19 %

Yes, but should include more items than proposed by the IASB

45 %

No, this is sufficiently regulated in existing IFRS

35 %

I do not know

0 %

Concluding remarks

Nick Anderson thanked everyone for their comments which were very helpful and noted that the IASB received extensive comments on the ED which would take some time to consider and to potentially redeliberate some topics.

Chiara Del Prete thanked all participants, the panellists, the DASB, the IASB and the EFRAG team for making this event possible. Finally, she invited everyone to provide input to EFRAG's final position.

Gerard van Santen concluded that it was very interesting debate, the proposals were very relevant and important and were allowing for transparency. He added that implementation will take at least another 2 years and that the improvements in financial statements were expected.

Peter Sampers thanked the panel members for sharing their views on the subjects discussed, EFRAG team, **Aida Vatrenjak** and **Nick Anderson**. He added that the proposals were a major step forward for financial communication. He thanked the audience for being present and asking questions, noted that it was still possible to provide input and comments on the ED and closed the meeting.