

EFRAG FR TEG-CFSS  
15 March 2022  
Paper 07-02  
EFRAG Secretariat: PFS team

# PRIMARY FINANCIAL STATEMENTS

UPDATE ON THE IASB DISCUSSIONS

15 MARCH 2023



# DISCLAIMER

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This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG-CFSS. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG FR TEG-CFSS. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

# PLAN FOR RESPONDING TO THE FEEDBACK

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## TOPICS ADDED TO THE IASB'S REDELIBERATION PLAN

The IASB discussed the feedback received from its recent targeted outreach and **tentatively decided to add four topics to its redeliberation plan:**

- whether it should reconfirm its decision on **classification of income and expense from associates and joint ventures accounted for using the equity method** ★
- whether it should develop application guidance for **classifying income and expense from off-balance-sheet items**
- whether it should develop guidance for including **interest expense on lease liabilities in operating profit if subleasing is a main business activity** ★
- whether it should develop further **application guidance for the proposed rebuttable presumption in the definition of management performance measures** ★

# PLAN FOR RESPONDING TO THE FEEDBACK

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## TOPICS TO BE DISCUSSED (AS PER THE IASB'S REDELIBERATION PLAN)

In January 2023, the IASB set out a plan for responding to the feedback received in the outreaches.

The topics that were already in the redeliberations plan for which the IASB will consider feedback received are:

- **Subtotals and categories:** discuss the accounting policy choice for classifying income and expenses from cash and cash equivalents proposed for entities that provide financing to customers as a main business activity ★
- **Subtotals and categories:** discuss the classification of gains and losses from foreign exchange differences - classifying the gain or loss on net monetary position ★
- **MPMs:** discuss the application of the simplified approach to calculating the tax effects of individual items reconciling an MPM to the most directly comparable total or subtotal specified by IFRS Accounting Standards ★
- **MPMs:** the applicability of the disclosure requirements to interim financial statements, the timing of public communications, when a subtotal included in the statement of profit or loss is an MPM and the interaction between MPMs and segment disclosures ★

★ Issue raised by EFRAG in its Summary Report and Recommendations

# PLAN FOR RESPONDING TO THE FEEDBACK

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## TOPICS TO BE DISCUSSED (AS PER THE IASB'S REDELIBERATION PLAN)

The topics that were already in the redeliberations plan for which the IASB will consider the feedback are (continuation):



- **Disaggregation:** explore an approach to operating expenses by nature that would require an entity to disclose, for all operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss ★
- **Disaggregation:** discuss whether application guidance should be developed specifying the disclosure requirement tentatively decided for operating expenses by nature could be met by disclosing costs incurred ★
- **Others:** Consequential amendments required for interim reporting and transition requirements

# PLAN FOR RESPONDING TO THE FEEDBACK

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## TOPICS TO BE ADDRESSED IN THE DRAFTING PROCESS

The topics that will be addressed in the drafting process are:

- **Subtotals and categories:** application of the revised approach to the financing category 
- **MPMs:** introduction of examples of common public communications in the application guidance and including in the Basis for Conclusions the IASB's discussion of the expectation that entities will have controls in place over the measures included in their public communications with the objective of improving their auditability
- **Disaggregation:** clarity on how the disaggregation requirements will interact with the mixed presentation, including when having a mixed presentation would result in useful information 
- **Other:** development of educational materials on the project as a whole (when the redeliberations are completed)

**Any issues that arise during drafting will be brought to the IASB when it considers sweep issues**

 Issue raised by EFRAG in its Summary Report and Recommendations

# PLAN FOR RESPONDING TO THE FEEDBACK

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## TOPICS THAT WILL NOT BE INCLUDED IN THE REDELIBERATION PLAN

Feedback received for which **the IASB concluded that no further action is required** (mainly because the feedback received did not identify new arguments compared to those received on the ED and the IASB had already considered those arguments in the redeliberations).

- On **Subtotals and categories**, the IASB decided not to rediscuss the:
  - definition of operating activity
  - classification in categories and required subtotals (e.g. whether it should require new subtotals)
  - classification of interest from other liabilities (such as net defined benefit liabilities, the unwind of discount on provisions and interest expense on lease liabilities)
  - classification of stand-alone derivatives in the operating category;
  - assessment of main business activities (reporting entity vs group level)
  - classification of cash and cash equivalents in the investing category

# PLAN FOR RESPONDING TO THE FEEDBACK

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## TOPICS THAT WILL NOT BE INCLUDED IN THE REDELIBERATION PLAN

- On **Subtotals and categories**, the IASB decided not to rediscuss the (cont.):
  - classification of interest expense on payables with extended credit terms
  - interaction of required subtotals with IFRS 8 (alignment of IAS 1 and IFRS 8)
  - presentation of additional subtotals and line items presented in the statement(s) of financial performance that need to fit into the structure of the categories
- On **MPMs**, the IASB decided not to rediscuss the:
  - scope and definition of MPMs
  - requirements for MPMs, including the requirement for an entity to disclose, for each reconciling item, the amount(s) related to each line item(s) in the statement(s) of financial performance



# PLAN FOR RESPONDING TO THE FEEDBACK

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## TOPICS THAT WILL NOT BE INCLUDED IN THE REDELIBERATION PLAN

- On **Disaggregation**, the IASB decided not to rediscuss the:
  - guidance on cost of sales
  - confidentiality of employee benefits
- **Other**
  - Concerns over similar labels but differing definitions between the statement of profit or loss and the statement of cash flows

# EFRAG SUMMARY REPORT AND RECOMMENDATIONS

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## TOPICS HIGHLIGHTED BY EFRAG

### Topics highlighted in the EFRAG's Summary Report and Recommendations that will not be discussed by the IASB

- concerns over similar labels but differing definitions between the statement of profit or loss and the statement of cash flows
- how entities with different business activities should present their financial statements
- the assessment of main business activities (at reporting entity versus group level)
- the classification of stand-alone derivatives in the operating category by default
- the classification of cash and cash equivalents in the financing category (rather than investing)
- the classification of interest on lease liabilities in the financing category for financial institutions
- interaction of required subtotals with IFRS 8

# EFRAG SUMMARY REPORT AND RECOMMENDATIONS

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## TOPICS HIGHLIGHTED BY EFRAG

**Topics highlighted in the EFRAG's Summary Report and Recommendations that will not be discussed by the IASB (cont.)**

- requirement for an entity to disclose, for each reconciling item, the amount(s) related to each line item(s) in the statement(s) of financial performance may significantly increase the costs for some preparers
- definition of unusual items

Although the IASB is planning to address the issues related to the financing category in the drafting stage, the EFRAG Secretariat will have to assess in the future to what extent EFRAG's requests have been addressed (e.g. hybrid contracts and to what extent (all) income and expenses from liabilities that arise from transactions that involve only the raising of finance - such as debt extinguishment, debt restructuring costs, as in paragraph 41 of the ED, and other transaction costs - will be part of the financing category)

# LATEST TENTATIVE DECISIONS

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## DISAGGREGATION

### *General requirement to disaggregate material information - Implications of the IASB's tentative decisions on specific disclosure requirements*

- The IASB tentatively decided to add an exemption to the general requirement to disaggregate material information. The exemption would apply to information about the nature of operating expenses included in a function line item in the statement of profit or loss.
- Specific disclosure requirements in IFRS Accounting Standards relating to operating expenses would still apply
- The IASB will consider in a future paper whether it should extend the exemption to cover the disaggregation of these required specific nature expenses into the function line items in which they are included

# LATEST TENTATIVE DECISIONS

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## DISAGGREGATION

### *General disaggregation requirements—Further issues*

The IASB tentatively decided to clarify that an entity is required to:

- describe disaggregated amounts in a clear and understandable way that would not mislead users of financial statements; and
- be transparent about the meaning of the terms it has used and the methods it has applied to the disaggregation.

The IASB tentatively decided to add a requirement that any line items an entity presents in its statement(s) of financial performance and statement of financial position are recognised and measured in accordance with IFRS Accounting Standards.

The IASB tentatively decided not to prohibit an entity from disaggregating income and expenses in the notes to the financial statements into components not recognised or measured in accordance with IFRS Accounting Standards.

# LATEST TENTATIVE DECISIONS

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## DISAGGREGATION

### *General disaggregation requirements—Further issues*

On the label 'other', the IASB tentatively decided to require an entity to use this label only if it is unable to find a more informative label. If an entity is unable to find a more informative label:

- **for an aggregation of varied material items** – an entity is required to use a label that is as precise as possible about the type of item the 'other' amount is, for example, 'other operating expenses' or 'other finance expenses'.
- **for an aggregation of varied immaterial items** - an entity is required to consider whether the aggregated amount is large enough that users of financial statements might question what it includes. If so, further information about that amount is material and accordingly would be provided by the entity.
  - The IASB tentatively decided to include as examples of material information
    - an explanation that no material items are included in the amount
    - an explanation that the amount consists of several unrelated immaterial items with an indication of the nature and amount of the largest item.

# LATEST TENTATIVE DECISIONS

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## DISAGGREGATION

### *Other comprehensive income*

- The IASB tentatively decided to withdraw the proposal to relabel the two categories of other comprehensive income as:
  - remeasurements permanently reported outside profit or loss; and
  - income and expenses to be included in profit or loss in the future when specific conditions are met.

### *Statement of cash flows—Interest received and classification for entities with specified main business activities*

The IASB tentatively decided:

- to confirm the proposal in the ED to require an entity without a specified main business activity to classify in the statement of cash flows interest received as ‘cash flows arising from investing activities’.
- to confirm the proposals in the ED to require an entity with a specified main business activity to classify some cash flows within a single category of the statement of cash flows (that is, as cash flows from either operating, investing or financing activities).

## QUESTIONS FOR EFRAG FR TEG-CFSS MEMBERS

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- Do EFRAG FR TEG-CFSS members have any comments on the IASB's tentative decisions on its redeliberation plan (i.e. topics added and topics that will not be included in the redeliberation plan), considering EFRAG's Summary Report and Recommendations?





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THANK YOU



EFRAG  
Aisbl - ivzw  
35 Square de Meeüs  
B-1000 Brussel  
Tel. +32 (0)2 210 44 00  
[www.efrag.org](http://www.efrag.org)

