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Primary Financial Statements Update on other issues

Objective

- 1 The objective of the session is to provide an update to EFRAG FR TEG members on the latest IASB's tentative decisions in January and March 2023 (which have not been discussed by the EFRAG FR TEG and EFRAG User Panel on 10 May 2023) on other comprehensive income and statement of cash flows.

Structure of the document

- 2 In the following sections, for each of the topics listed below, it is provided a summary of the IASB proposal in the Exposure Draft *General Presentation and Disclosures* ("the ED"), EFRAG's position in its final comment letter, the latest IASB discussions and decision and the EFRAG Secretariat analysis. The topics to be discussed are:
 - (a) Other comprehensive income (IASB [AP21E](#), January 2023); and
 - (b) Statement of cash flows (IASB [AP21F](#), January 2023).

Other comprehensive income

IASB proposal in the ED

- 3 Paragraph 74 of the ED proposed creating more descriptive labels for the two categories of other comprehensive income, which were designed to increase the understandability of the amounts included therein. In particular, the ED proposed replacing the current labels of the categories defined in IAS 1 (i.e., items that "will not be reclassified subsequently to profit or loss" and items that "will be reclassified subsequently to profit or loss when specific conditions are met") with the following ones:
 - (a) remeasurements permanently reported outside profit or loss; and
 - (b) income and expenses to be included in profit or loss in the future when specific conditions are met.

EFRAG Final Comment Letter

- 4 In its comment letter EFRAG did not consider that the IASB's proposals on other comprehensive income ('OCI') are a significant improvement as they simply modify the labelling of OCI line items. EFRAG considered that it will be difficult to significantly improve the communication and understandability of OCI without addressing the distinction between profit or loss and OCI and the role of recycling; and
- 5 EFRAG highlighted that relevant information about OCI is also provided in the statement of financial position (e.g., separate components of equity), thus any future discussions on OCI should also consider the statement of financial position and its interaction with the statement of financial performance.

IASB discussions and tentative decisions

- 6 Based on the feedback received by the IASB, a few respondents expressed some concerns about the new label. In particular, these respondents said that:
- (a) The proposed labels are inconsistent - One refers to “remeasurements” and the other one to “income and expenses”;
 - (b) The term “remeasurements” is not defined and can be misunderstood; and
 - (c) The proposed labels could suggest that all income and expenses that are not remeasurements are always reclassified to profit or loss.
- 7 Furthermore, other respondents suggested conducting a fundamental review of other comprehensive income in a separate project so as not to add further complexity to the PFS project.
- 8 Such feedback suggested that the proposed changes might not meet the aforementioned objectives and could have unintended consequences which could reduce the clarity.
- 9 Therefore, at its [January 2023](#) meeting, the IASB tentatively decided to withdraw the proposal in the ED (see paragraph 4 above) to relabel the two categories of other comprehensive income) to relabel the two categories of other comprehensive income as:
- (a) remeasurements permanently reported outside profit or loss; and
 - (b) income and expenses to be included in profit or loss in the future when specific conditions are met.
- 10 Thus, the IASB will retain the current labels as defined in IAS 1 as follows:
- (a) items of other comprehensive income that will not be reclassified subsequently to profit or loss; and
 - (b) items of other comprehensive income that will be reclassified subsequently to profit or loss when specific conditions are met.

EFRAG Secretariat analysis

- 11 The EFRAG Secretariat continues to support the concerns already included in the EFRAG’s comment letter as detailed in paragraphs 4 and 5 above.
- 12 Therefore, the EFRAG Secretariat agrees with the IASB’s decision to withdraw the relabelling proposal included in the ED.

Questions for EFRAG FR TEG

- 13 Do EFRAG FR TEG members have any comments on the IASB’s tentative decisions?
- 14 Do EFRAG FR TEG members agree with the EFRAG Secretariat analysis?

Statement of cash flows¹

IASB proposal in the ED

- 15 The ED proposed to amend IAS 7 *Statement of Cash Flows* to improve consistency in classification by reducing the presentation alternatives currently permitted for the classification of interest and dividend cash flows (see paragraphs BC189–BC190 of the ED). In particular, the ED proposed:

¹ At its January and March 2023 meetings the IASB did not discuss the classification of cash flows from associates and joint ventures accounted for using the equity method. This will be discussed in a future meeting together with the classification of related income and expenses in the statement of profit or loss.

- (a) For entities other than those with specified main business activities, to classify interests and dividends received as cash flows arising from the investing activities and those paid as cash flows from financing activities;
- (b) For entities with specified main business activities, to classify each of the cash flows related to the interests paid, interests received and dividend received (other than those from associates and joint ventures accounted for using the equity method) in a single category of the statement of cash flows based on the classification of the corresponding income and expenses in the statement of profit or loss. The entity shall make an accounting policy choice whether it classifies the related income and expenses in more than one category in the statement of profit or loss.

EFRAG Final Comment Letter

- 16 In its comment letter, EFRAG supported the removal of options for the classification of interest and dividends in the statement of cash flows for non-financial entities. This will improve consistency in presentation of similar line items and will better reflect the nature of the respective cash flows. EFRAG observed that some of those line items will be classified into different categories in the statement of cash flows and the statement of profit or loss.
- 17 However, EFRAG suggested that the IASB had a separate project on IAS 7 with the objective of having a comprehensive review of the challenges that arise in practice (e.g., financial institutions) and improve consistency with the new content and structure of the statement of profit or loss.

IASB discussions and tentative decisions

- 18 The IASB received limited feedback on the proposal in the ED as detailed above. However, among those few respondents, many agreed with it because it should enhance comparability between entities. Others expressed some concerns about the lack of full alignment of the classification of interest and dividends between the statement of profit or loss and the statement of cash flows.
- 19 The IASB tentatively decided to:
- (a) confirm the proposal included 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’;
 - (b) 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). These cash flows are:
 - (i) dividends received (other than dividends received from associates and joint ventures accounted for using the equity method);
 - (ii) interest paid; and
 - (iii) interest received.
- 20 The IASB acknowledged that this approach would not achieve the full alignment between the classification of such cash flows and the related income and expenses in statement of profit or loss as summarised in the tables included in the Appendix I; however, this misalignment was not expected to be material for most entities and the full alignment was not the main scope of the project and could lead to undue costs for some preparers (e.g., changes to the current practice).
- 21 Finally, the IASB concluded that including each type of these cash flows in a single category in the statement of cash flows is more useful than the full alignment between the two statements.

EFRAG Secretariat analysis

- 22 The EFRAG Secretariat continues to agree with the EFRAG’s position in its comment letter as detailed in the paragraph “EFRAG Final Comment letter”.
- 23 Therefore, the EFRAG Secretariat continues to agree with the IASB’s proposal in the ED relating to the classification of interest and dividends in the statement of cash flows. Furthermore, following the IASB’s decision to add a such a project relating to the statement of cash flows to the research pipeline based on the feedback received on its Third Agenda Consultation, EFRAG decided to start a specific research project on the statement of cash flows, whose scope is still under discussion. We will coordinate and communicate with the research team.

Questions for EFRAG FR TEG

- 24 Do EFRAG FR TEG members have any comments on the IASB’s tentative decisions?
- 25 Do EFRAG FR TEG members agree with the EFRAG Secretariat analysis?

Appendix 1

26 The following tables compare, based on the entity's main business activities, the classification of interest and dividend cash flows in the statement of profit or loss and in the statement of cash flows reflecting the IASB's tentative decisions to date.

(a) For entities other than those with specified business activities (i.e., Corporates)

	Profit or loss	Cash flows
Interest revenue / interest received from financial assets arising from providing financing to customers (e.g., trade receivables and lease receivables)	Operating	Investing
Interest income / interest received from cash and cash equivalents	Investing	Investing
Interest expense / interest paid	Financing	Financing
Dividend income / dividends received from financial assets (excluding investments in associates and joint ventures accounted for using the equity method)	Investing	Investing

(b) For entities that invest in financial assets as a main business activity

	Profit or loss	Cash flows
Interest revenue / interest received from financial assets (including from cash and cash equivalents and from financial assets arising from providing financing to customers)	Operating	Operating
Interest expense / interest paid from: - liabilities that arise from transactions that involve only the raising of finance - other liabilities (such as trade payables, lease liabilities and defined benefit liabilities)	Financing	Financing
Dividend income / dividends received from financial assets (excluding investments in associates and joint ventures accounted for using the equity method)	Operating	Operating

(c) For entities that invest only in non-financial assets as a main business activity

	Profit or loss	Cash flows
Interest revenue / interest received from financial assets (including from cash and cash equivalents and from financial assets arising from providing financing to customers)	Investing or operating ^{2*}	Accounting policy choice: single category (either operating or investing)
Interest expense / interest paid from: - liabilities that arise from transactions that involve only the raising of finance - other liabilities (such as trade payables, lease liabilities and defined benefit liabilities)	Financing	Financing
Dividend income / dividends received from financial assets (excluding investments in associates and joint ventures accounted for using the equity method)	Investing	Investing

(d) For entities that provide financing to customers and invest in financial assets as a main business activity

	Profit or loss	Cash flows
Interest revenue / interest received from financial assets (including from cash and cash equivalents and from financial assets arising from providing financing to customers)	Operating	Operating
Interest expense / interest paid from: - liabilities that arise from transactions that involve only the raising of finance	Accounting policy choice (Operating or Financing)	Accounting policy choice: single category (either operating or financing)
- other liabilities (such as trade payables, lease liabilities and defined benefit liabilities)	Financing	
Dividend income / dividends received from financial assets (excluding investments in associates and joint ventures accounted for using the equity method)	Operating	Operating

² For interest received from financial assets arising from providing financing to customers: operating category. For other financial assets: investing category.

- (e) For entities that provide financing to customers as a main business activity but do not invest in financial assets as a main business activity

	Profit or loss	Cash flows
Interest revenue / interest received from financial assets, including:	Accounting policy choice (Operating or Investing)	Accounting policy choice: single category (either operating or investing)
- from cash and cash equivalents		
- from financial assets arising from providing financing to customers	Operating	
- other financial assets	Investing	
Interest expense / interest paid from:	Accounting policy choice (Operating or Financing)	Accounting policy choice: single category (either operating or financing)
- liabilities that arise from transactions that involve only the raising of finance		
- other liabilities (such as trade payables, lease liabilities and defined benefit liabilities)	Financing	
Dividend income / dividends received from financial assets (excluding investments in associates and joint ventures accounted for using the equity method)	Investing	Investing