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Primary Financial Statements – Research activities

Issues paper

Objective

- 1 The objectives of the session are:
 - (a) To receive input on and agree with EFRAG FR TEG how to perform the early-stage analysis of the 2022 financial statements for a sample of selected entities, including both financial and non-financial institutions. The purpose of such an analysis is to provide useful information on the costs and benefits associated with the forthcoming endorsement process of IFRS X; and
 - (b) To seek for EFRAG FR TEG members' inputs on the scope of the analysis and the sample selection methodology as proposed by the EFRAG Secretariat.

Background

- 2 In December 2019, the IASB published the [Exposure Draft General Presentation and Disclosures](#) focused on improving how information is communicated in the financial statements, with a focus on information about performance in the statement of profit or loss. EFRAG submitted its [Draft Comment Letter \(DCL\)](#) on 24 February 2020 and its [Final Comment Letter \(FCL\)](#) to the IASB on 2 November 2020.
- 3 In its DCL, EFRAG included the results of the early-stage analysis of the 2018 financial statements of 40 European listed entities included in the S&P Europe 350 Index and STOXX 600, in order to obtain insights on the current practices of the presentation of financial statements and how the IASB's tentative decisions would have impacted the presentation in practice.
- 4 Even if not statistically representative for the European listed entities, the selected sample covered a wide range of industries, countries and sizes (market capitalisation). In particular, EFRAG analysed a sample of entities:
 - (a) from 14 different industries, including financial institutions;
 - (b) incorporated in 14 different European countries, including 4 in the UK;
 - (c) of different sizes in terms of market capitalisation to avoid focusing only on the biggest European listed entities.
- 5 EFRAG focused its analysis on the key topics discussed by the IASB related to the presentation and disclosure in the:
 - (a) Statement of financial performance, focusing on the:
 - (i) level of disaggregation (number of line items and subtotals used);
 - (ii) type of subtotals used;

- (iii) use of the presentation options for the analysis of expenses classified based on their nature or their function;
 - (iv) use of the option to present a single statement of comprehensive income or two statements;
 - (v) presentation of share of the profit or loss of associates and joint ventures accounted for using the equity method;
 - (vi) presentation of non-recurring/unusual items on the primary financial statements;
 - (vii) disclosures of non-GAAP numbers, including reconciliations with subtotals defined in IFRS Standards; and
 - (viii) disclosures of unusual items.
- (b) Statement of cash flows, focusing on the:
- (i) starting point for the indirect method;
 - (ii) presentation of interest and dividends in the statement of cash flows;
 - (iii) presentation of cash flows that arise from associates and joint ventures.
- (c) Statement of financial position, focusing on the:
- (i) level of disaggregation (number of line items and subtotals used);
 - (ii) use of the category 'others'.
- 6 Further details about the results of the early-stage analysis can be found [here](#).

EFRAG Secretariat proposal

- 7 In July 2023 the IASB announced it has concluded its decision-making on the project refining its original proposals in the ED published in 2019 to reflect stakeholder feedback. Following this, the IASB has started the drafting and balloting process of the new IFRS Accounting Standard ('IFRS X').
- 8 Therefore, the EFRAG Secretariat is planning to start a research activity, which will be subsequently used in EFRAG's early-stage analysis and intends to support EFRAG FR TEG members in their discussions in preparing for EFRAG's draft endorsement advice to the European Commission. This study aims to analyse a sample of 2022 financial statements to get useful information in terms of costs and benefits arising from the new standard.
- 9 In particular, for detecting any changes in practice compared to previous disclosures and financial statements presentation, the EFRAG Secretariat proposes an approach consistent with the previous methodology concerning the criteria used for selecting the sample, as well as the scope of the study.

Sample selection

- 10 The EFRAG Secretariat suggests to:
- (a) consider the old sample of 40 entities as a starting point;
 - (b) replace the four entities headquartered in the UK with other European entities based on their location or industry (e.g., countries or industries not yet represented by the sample) and a company that has been delisted;
 - (c) verify that the new sample ensures at least the same representativeness in terms of country, industry and entity size.
- 11 The tables below summarised, for each selection criteria and based on suggestions included in the previous paragraph, the representativeness ensured by the new sample

(‘2022 Sample’) compared to the old one (‘2019 Sample’). For the complete list of entities included in the sample, please refer to Appendix I.

Country	2022 Sample	2019 Sample
Germany	7	7
France	7	6
Netherlands	3	4
Italy	4	4
United Kingdom	-	4
Spain	4	3
Belgium	4	3
Portugal	2	2
Poland	2	2
Ireland	1	-
Luxembourg	1	-
Norway	1	1
Sweden	1	1
Austria	1	1
Finland	1	1
Denmark	1	1
Grand Total	40	40

Industry	2022 Sample	2019 Sample
Banks	6	6
Energy, Oil and Gas	4	4
Industrial, Manufacturing & Construction	4	4
Pharmaceutical	3	3
Telecommunications	3	3
Personal & Household Goods	2	3
Automotive	2	2
Food & Beverages	2	2
Real Estate	2	2
Utilities	2	2
Information Technology	2	3
Chemical Manufacturing	2	2
Insurance	3	3
Basic Resources	2	1
Furnishings, Fixtures & Appliances	1	0
Grand Total	40	40

Market Value	2022 Sample	2019 Sample
> 150B	3	0
90B-150B	6	10
50B-90B	11	7
20B-50B	6	10
0-20B	14	13
Grand Total	40	40

Scope of the analysis

- 12 The EFRAG Secretariat suggests focusing its analysis on the following key topics based on the latest IASB discussions to date relating to the presentation and disclosure in the:

- (a) Statement of financial performance, focusing on the:
- (i) level of disaggregation (number of line items and subtotals used);
 - (ii) type of subtotals used;
 - (iii) use of the presentation options for the analysis of expenses classified based on their nature or their function;
 - (iv) use of the option to present a single statement of comprehensive income or two statements;
 - (v) presentation of some specific line items, including:
 - share of the profit or loss of associates and joint ventures accounted for using the equity method;
 - foreign exchange differences (*new*);
 - income and expenses arising from cash and cash equivalents (*new*);
 - (vi) disclosures of non-GAAP numbers, including reconciliations with subtotals defined in IFRS Standards; and
- (b) Statement of cash flows, focusing on the:
- (i) starting point for the indirect method;
 - (ii) presentation of interest and dividends in the statement of cash flows;
 - (iii) presentation of cash flows that arise from associates and joint ventures.
- (c) Statement of financial position, focusing on the:
- (i) level of disaggregation (number of line items and subtotals used);
 - (ii) use of the category ‘others’.

Questions for EFRAG TEG

- 13 Does EFRAG FR TEG members agree with starting the suggested research analysis in preparation of the EFRAG’s Draft Endorsement Advice?
- 14 Does EFRAG FR TEG have any comments or suggestions on the scope and sample selection as detailed in paragraphs 10 to 12?

Next steps

- 15 The EFRAG Secretariat will start such a research activity and will provide EFRAG FR TEG members with a summary of the preliminary results in upcoming sessions.

Appendix I – List of entities included in the proposed sample

Number	Industry	Country Name	Comments
1	Auto Manufacturers	Germany	
2	Auto Manufacturers	Italy	
3	Chemical Manufacturing	Belgium	
4	Chemical Manufacturing	Norway	
5-Replaced	Personal & Household Goods	Sweden	Delisted in Nov 2022. To be replaced
5-New	Furnishings, Fixtures & Appliances	Sweden	
6	Food & Beverages	Netherlands	
7	Food & Beverages	Belgium	
8	Utilities	Portugal	
9	Utilities	Finland	
10	Pharmaceutical	Germany	
11	Pharmaceutical	France	
12	Pharmaceutical	Belgium	
13	Basic Resources	Poland	
14	Industrial, Manufacturing & Construction	Germany	
15	Industrial, Manufacturing & Construction	France	
16	Industrial, Manufacturing & Construction	Spain	
17	Industrial, Manufacturing & Construction	Denmark	
18	Energy, Oil and Gas	Italy	
19	Energy, Oil and Gas	Portugal	
20	Energy, Oil and Gas	France	
21	Energy, Oil and Gas	Poland	
22-Replaced	Personal & Household Goods	United Kingdom	UK entity. To be replaced
22-New	Personal & Household Goods	Ireland	
23-Replaced	Personal & Household Goods	Netherlands	The ultimate parent entity is now only headquartered in the UK, so to be replaced
23-New	Personal & Household Goods	France	
24	Information Technology	Netherlands	
25	Information Technology	Germany	
26-Replaced	Information Technology	United Kingdom	UK entity. To be replaced
26-New	Basic Resources	Luxembourg	
27	Telecommunications	France	
28	Telecommunications	Spain	
29	Telecommunications	Italy	
30	Real Estate	Germany	
31	Real Estate	Germany	
32-Replaced	Banks	United Kingdom	UK entity. To be replaced
32-New	Banks	Spain	
33	Banks	Spain	
34	Banks	France	
35	Banks	Netherlands	
36	Banks	Austria	
37	Banks	Italy	

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Number	Industry	Country Name	Comments
38	Insurance	Germany	
39-Replaced	Insurance	United Kingdom	UK entity. To be replaced
39 - New	Insurance	Belgium	
40	Insurance	France	