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Primary Financial Statements

Issues Paper

Objective

1 The objective of the session is to seek EFRAG FR TEG views on the selected sweep issues that have been discussed by the IASB in October and November 2023.

Structure of the session

2 For each of the selected sweep issues listed below, a summary of the latest IASB discussions and decisions, EFRAG's position in its Final Comment Letter (FCL)/Summary report and recommendations, and the EFRAG Secretariat analysis are provided.

3 The topics to be discussed are the following:

(a) Subtotals and categories:

(i) Scope of income and expenses classified in the investing category – classification of incremental expenses;

(ii) Clarification about the classification of income and expenses from specific hybrid contracts by entities that provide financing to customers as a main business activity; and

(iii) Clarification about the classification (in the financing category) of gains and losses on a derivative not used to manage identified risks and related to a transaction that involves only the raising of financing by entities that provide financing to customers as a main business activity.

(b) Management performance measures

(i) Minor[1] sweep issues related to MPMs, including specified subtotal, disclosure of changes to MPMs, timing of public communications and the use of the term 'reasonable and supportable information' in the rebuttable presumption for MPMs.

(c) Disaggregation

(i) Additional clarification about the meaning of the term 'Useful structured summary' and its relationship with the materiality assessment and other requirements related to classification and presentation in the primary financial statements; and

(ii) Scope of the disclosure of specified expenses by nature.

(d) Other issues

(i) Transitional relief for additional comparative information.

Sweep issues related to subtotals and categories

Scope of income and expenses classified in the investing category – classification of incremental expenses

Description of the issue(s)

4 Paragraph 47 of the ED stated that incremental expenses - which are expenses that the entity would not have incurred if the investments had not been made - incurred generating income and expenses from investments were classified in the investing category.

5 In September 2022, the IASB tentatively decided to withdraw the proposed requirement for incremental expenses in the ED. The IASB also tentatively decided to not introduce a requirement for an entity to classify incremental expenses in the financing category.

6 In particular, the IASB members provided, among others (for further details refer to paragraph 9 of the IASB AP21A), the following reasons for supporting this tentative decision:

(a) It will resolve the potential for diversity in practice in how entities identify incremental expenses leading to differences in the classification of income and expenses between categories;

(b) It will result in a better balance between costs and benefits compared to clarifying the scope on incremental expenses to be included in the investing category;

[1] Minor – assessed by the IASB

(c) It will align the classification of these expenses between the investing and financing categories; and

(d) For most entities transaction costs such as management fees are likely to be immaterial.

7 Furthermore, the IASB asked the staff to explore whether there were marginal benefits (that exceed the associated costs) to include in the investing category the incremental expenses directly attributable to the acquisition and disposal of the specified assets (defined as those assets whom income and expenses are classified in the investing category[2]).

Recent IASB discussions and tentative decisions

8 In November 2023 the IASB discussed a proposal that would be a change from the IASB's tentative decision in September 2022 and would reintroduce some, but not all, of the incremental expenses required to be classified in the investing category in the ED.

9 In developing the new proposal related to the classification of incremental expenses directly attributable to the acquisition and disposal of the specified assets in the investing category (and by symmetry also those related to the acquisition and disposal of financing liabilities in the financing activity), the IASB staff considered the following:

(a) Whether there is a need to develop additional requirements to define incremental costs considering that those that would mostly need to be classified in the investing or in the financing category are transaction costs as defined in IFRS 9[3];

(b) How transaction costs are accounted for in accordance with other IFRS Accounting Standards (e.g., IFRS 9 depending on the measurement method used, IAS 28 for equity-accounted investments recognised at cost, IAS 40 for investment property) at the acquisition date (i.e., whether they are included in the initial carrying amount) and at the disposal date (i.e., how an entity determines the gain or loss on derecognition);

[2] The term "specified assets" include: assets (excluding cash and cash equivalents) for which the income and expenses are always classified in the investing category, assets (excluding cash and cash equivalents) that an entity invests in but not as a main business activity, and cash and cash equivalents for entities other than those with specified main business activities or that have elected to classify in the investing category income and expenses from cash and cash equivalents that do not related to providing financing to customers.

[3] IFRS 9 – Appendix A defines transaction costs as follows: "*Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability (see paragraph B5.4.8). An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.*"

(c) Classification of income and expenses arising from the derecognition or the change in classification of an asset (or liability) based on the IASB tentative decision in June 2023[4];

(d) Need for having a similar approach to both specified assets in the investing and financing liabilities in the financing categories.

10 Based on the above, the IASB tentatively decided to:

(a) clarify in IFRS 18 the income and expenses from assets that an entity classifies in the investing category. The IASB previously confirmed the assets from which the income and expenses need to be classified in the investing category. At this meeting, the IASB tentatively decided to clarify that the income and expenses from the specified assets comprise:

(i) the income generated by the specified assets;

(ii) the income and expenses that arise from the initial and subsequent measurement of the specified assets; and

(iii) the incremental expenses directly attributable to the acquisition and disposal of the specified assets (for example, transaction costs and costs to sell).

(b) Consequently, to maintain consistency between the investing and financing categories, the IASB tentatively decided to clarify that the income and expenses from liabilities arising from transactions involving only the raising of finance comprise:

(i) the income and expenses that arise from the initial and subsequent measurement of the liabilities; and

(ii) the incremental expenses directly attributable to the issue and disposal of the liabilities, for example transaction costs.

11 At the November meeting, IASB members unanimously agreed with the IASB staff proposal as it would lead to marginal benefits as follows:

(a) greater (even marginal) consistent classification of income and expenses in each of the categories is important to achieving comparable subtotals.

(b) there is benefit of having a similar approach to both the investing and financing categories;

[4] In June 2023 the IASB tentatively decided to require an entity to classify such income and expenses in the same category as income and expenses generated by that asset (or liability) before immediately before derecognition/reclassification.

(c) this approach aligns with the classification in the investing category and in the financing category of transaction costs that are expensed with those that are included in the carrying amounts of specified assets and financing liabilities;

(d) the incremental costs that are directly attributable to the issue or disposal of a liability are typically external costs or costs that are identifiable without performing a substantial allocation exercise. We do not expect adding these requirements will introduce undue cost or effort for preparers; and

(e) the IASB would not need to develop significant additional requirements because the incremental expenses that would mostly need to be specified to be classified in the investing category or in the financing category to achieve consistency are transaction costs (as defined in IFRS 9).

EFRAG's position in its FCL and/or in its Summary report and Recommendations

12 In its FCL, EFRAG noted that in accordance with paragraph 47 of the ED, entities would classify in the investing category incremental expenses incurred to generate income and expenses from investments. However, the ED is silent on incremental expenses related to the financing category. EFRAG considered that it would be useful to clarify whether incremental expenses related to financing activities should also be in the financing category (by symmetry).

13 EFRAG also called for further clarifications on the notion of incremental expenses, (e.g., whether, for example, legal and advisory fees for activities including due diligence, negotiating terms, preparing legal documents, etc. are incremental) as per other IFRS Standards (e.g., IFRS 16 *Leases*, IFRS 15 *Revenue from Contracts with Customers*, IFRS 9 *Financial Instruments*, IAS 32 *Financial Instruments: Presentation*) have resulted in inconsistent or inadequate reporting disclosures.

14 Furthermore, in EFRAG Summary Report and Recommendations, preparers confirmed that the classification of incremental expenses was not clear, particularly when considering paragraph B36(b) of the ED, which would require "debt extinguishment and debt restructuring expenses" to be classified in the financing category rather than in the operating category consistently with other incremental costs.

EFRAG Secretariat analysis

15 In addition to the feedback received and summarised in our FCL and Summary Report and Recommendations as detailed in paragraphs 12-14 above, the EFRAG secretariat noted that in October 2022 EFRAG FR TEG members:

(a) generally agreed with the September 2022 IASB tentative decision as it would have reduced complexity for preparers and aligned the classification of incremental expenses in both investing and financing category;

(b) acknowledged that this decision would have resulted in differences in category for the classification of transaction costs on financial assets based on the different measurement methods used in accordance with IFRS 9. However, they also highlighted that incremental costs are not expected to have material impact on the entity's statement of profit or loss.

16 Based on the above, the EFRAG Secretariat agrees with the IASB tentative decision because it:

(a) would remove differences in classification of transaction costs driven by different measurement methods applied in accordance with IFRS 9 resulting in more comparable subtotals across entities (e.g., for entities other than those with specified main business activities, transactions costs on assets measured at FVTPL would be classified in the investing category rather than in the operating category consistently with those on assets measured at amortised cost);

(b) would address stakeholders' call for additional clarification about the definition of incremental expenses. Indeed, the new IASB tentative decision would not refer to all incremental expenses (as proposed in the ED) but only to those transaction costs related to the acquisition or disposal of an asset (or liability). The judgement required to identify such costs is consistent with that required by other IFRS Accounting Standards (e.g., IFRS 9);

(c) would continue to ensure the same approach in both investing and financing category.

Questions for EFRAG FR TEG

17 Do EFRAG FR TEG members have any comments on the IASB's tentative decisions?

18 Do EFRAG FR TEG members agree with the EFRAG Secretariat analysis?

Clarification about the classification of income and expenses from specific hybrid contracts by entities that provide financing to customers as a main business activity

Description of the issue(s)

19 In March 2023 the IASB tentatively decided that all income and expenses after initial recognition from hybrid contracts with host liabilities (with a non-separated embedded

derivative) that not arise from transactions that involve only the raising of finance are classified in the financing category.

20 In drafting the IASB staff noted that it was not clear whether these instruments were eligible for reclassification in the operating category by an entity that provides financing to customers as a main business activity.

Recent IASB discussions and tentative decisions

21 The IASB clarified that these instruments are not eligible for classification in the operating category by an entity that provides financing to customers as a main business activity—consistent with the IASB's tentative decisions on classification of income and expenses from liabilities that do not arise from transactions that involve only the raising of finance held by these entities.

EFRAG's position in its FCL and/or in its Summary report and Recommendations

22 In its Summary Report and Recommendations, EFRAG recommended the IASB to clarify and provide additional application guidance related to the classification (including the application of accounting policy choice for entities with specified main business activities) of income and expenses from hybrid contracts (e.g., illustrative examples and/or flowchart).

23 Indeed, when discussing the classification of hybrid contracts, preparers (particularly from the banking industry) asked for more clarity on the meaning of the IASB' tentative decision on classifying "in the same way as income and expenses on other liabilities". More specifically, it was unclear whether the "other liabilities" were related to other liabilities that should be always presented outside of the operating category (as the accounting policy choice in paragraph 51 of the ED would not apply).

EFRAG Secretariat analysis

24 The EFRAG Secretariat highlights that, in addition to the targeted outreaches, the classification of income and expenses on hybrid contracts has been further discussed with EFRAG FIWG in October. At this meeting, the IASB staff provided an overview of the IASB tentative decision relating the definition of financing category and provided some proposed additional guidance about the classification of derivatives and hybrid contracts for discussion.

25 EFRAG FIWG asked for additional clarifications about the classification (in the operating or financing category) of some structured hybrid contracts commonly issued by the financial institutions for reason other than the raising of finance (e.g., for trading purpose).

26 Based on the information provided by the IASB at this meeting, the EFRAG Secretariat suggested the IASB to consider:

(a) improving drafting to make very clear whether and when income and expenses from hybrid contracts that do not involve only the raising of finance and the liability host is separated from embedded derivative can be reclassified into operating profit when an entity provides financing to customers as a main business activity; and

(b) adding a flow-chart in the application guidance or in the illustrative examples.

27 Based on the above, the EFRAG Secretariat welcomes the clarification provided by the IASB as it would address one of the concerns raised by stakeholders (including EFRAG) related to the reclassification in the operating category of some income and expenses on such hybrid contracts.

28 The EFRAG Secretariat will continue to monitor this topic over the next months before the issuance of IFRS 18 and during the IASB's plan to support implementation and consistent application of IFRS 18, mainly to assess whether stakeholders' concerns will be addressed providing additional guidance, illustrative examples or flowchart.

Questions for EFRAG FR TEG

29 Do EFRAG FR TEG members have any comments on the IASB's tentative decisions?

30 Do EFRAG FR TEG members agree with the EFRAG Secretariat analysis?

Clarification about the classification (in the financing category) of gains and losses on a derivative not used to manage identified risks and related to a transaction that involves only the raising of financing by entities that provide financing to customers as a main business activity

Description of the issue(s)

31 In its redeliberations, the IASB tentatively decided to require an entity to classify gains and losses on derivatives not used to manage identified risks in the financing category, if the derivative is part of a transaction that involves only the raising of finance (see AP21A and AP21B of the July 2021 IASB meeting). Furthermore, in July 2022, the IASB confirmed the proposed accounting policy choice in paragraph 51 of the ED to classify in the operating category all income and expenses from liabilities that arise from transactions that involve only the raising of finance when an entity provides financing to customers as a main business activity (see Agenda Paper 21B of the July 2022 IASB meeting).

32 In drafting, the IASB staff noted that the IASB did not specifically consider whether the aforementioned accounting policy choice would apply to gains or losses on derivatives not

used to manage identified risks and related to transactions that involve only the raising of finance for entities that provide financing to customers.

Recent IASB discussions and tentative decisions

33 The IASB clarified that the accounting policy choice in paragraph 51 of the ED would apply also to gain or losses on derivatives not used to manage identified risks and related to transactions that involve only the raising of finance, consistently with the IASB's intention to classify them in the same category as other income and expenses on transactions that involve only the raising of finance.

EFRAG's position in its FCL and/or in its Summary report and Recommendations

34 EFRAG did not express any concerns on this specific issue.

35 However, in its Summary Report and Recommendations, EFRAG recommended that the IASB should clarify its proposal related to situations that would involve grossing up gains and losses and consider alternative solutions, including revisiting the default presentation in the operating category, to mitigate the issue of corporates related to bringing the impact of derivatives into the operating category, which could bring significant volatility to this category.

EFRAG Secretariat analysis

36 The EFRAG Secretariat highlights that, in addition to the targeted outreaches, the classification of income and expenses on derivatives has been further discussed with EFRAG FIWG in October (see paragraph 24 above).

37 One EFRAG FIWG questioned which situations the IASB had in mind when referring to derivatives that are not used to manage particular risks and, at the same time, are used as part of a transaction that involves only the raising of finance for a financial institution. Therefore, this member asked for practical examples to clarify those circumstances.

38 The EFRAG Secretariat welcomes the clarification provided by the IASB as it would ensure consistency among income and expenses on transactions that involve only the raising of finance for entities that provide financing to customers as main business activity. Indeed, especially for financial institutions, this clarification would allow an entity to classify such income and expenses in the operating category.

Questions for EFRAG FR TEG

39 Do EFRAG FR TEG members have any comments on the IASB's tentative decisions?

40 Do EFRAG FR TEG members agree with the EFRAG Secretariat analysis?

Sweep issues related to MPMs

Minor[5] sweep issues related to MPMs, including specified subtotal, disclosure of changes to MPMs, timing of public communications and the use of the term 'reasonable and supportable information' in the rebuttable presumption for MPMs

Description of the issue(s)

41 The IASB discussed minor sweep issues related to this topic including:

(a) Additional clarification about the disclosure of changes to MPMs when the entity is impracticable to provide comparative information;

(b) Relationship between MPMs and totals or subtotals required to be disclosed by other IFRS Accounting Standards (e.g., disclosure required by paragraph B64(q)(ii) of IFRS 3 Business Combinations) - In drafting IFRS 18, the IASB staff included application guidance on measures that depict hypothetical transactions and events and included this profit or loss measure as an example of a proforma measure that is not a management-defined performance measure. However, this application guidance resulted in a number of questions and concerns from reviewers of the pre-ballot draft of IFRS 18;

(c) Relationship between MPM disclosure requirements and measures issued in public communications before or on the same day the financial statements are authorised for issue - Stakeholders called for additional clarification; and

(d) Consistent application across IFRS Accounting Standards of the term 'reasonable and supportable information' – Several IASB members raised questions about the use of this term across different IFRS Accounting Standards.

Recent IASB discussions and tentative decisions

42 In drafting, the IASB tentatively decided to:

(a) add that in assessing whether it is impracticable to provide comparative information about a new or changed MPM, an entity shall apply the requirements in paragraphs 50–53 of IAS 8 in this assessment despite the choice of a MPM not being an accounting policy choice;

(b) remove the application guidance related to hypothetical transactions and events and refine the drafting to clarify that a total or subtotal of income and expenses required to be presented or disclosed by another IFRS Accounting Standard is not a MPM. As a result, totals and subtotals in IFRS Accounting Standards, such as the subtotal

[5] Minor according to the IASB papers

required by paragraph B64(q)(ii) of IFRS 3 and totals and subtotals that the IASB adds to IFRS Accounting Standards in the future, would not be a MPM;

(c) clarify that when an entity routinely issues public communications containing performance measures after the financial statements are authorised for issue, an entity shall consider the measures it included in public communications related to the previous reporting period to identify MPMs for the current period, unless there is evidence that indicates a measure will not be included in the public communications to be issued relating to the current reporting period. On transition to IFRS 18, it would consider the public communications issued for the previous period financial statements to identify which measures are MPMs in the period of initial application of IFRS 18. If an entity introduces a new measure in public communications issued after the date the financial statements are authorised for issue, it will apply the requirements for MPMs in the following period, unless there is evidence that indicates otherwise (e.g., rebutting the presumption for the current period).

(d) Clarify that the use of 'reasonable and supportable information' in IFRS 18 is aligned only with that in paragraph B5.5.20 of IFRS 9 *Financial Instruments* - which explains when an entity can rebut the presumption that credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due (i.e., it is not consistent with the use of the term 'reasonable and supportable information' for other purposes in other paragraphs in IFRS 9).

EFRAG's position in its FCL and/or in its Summary report and Recommendations

43 In its FCL and in its Summary Report and Recommendations EFRAG expressed, among others, concerns related to the extent that the definition of a MPM and the rebuttable presumption apply. Especially for highly regulated entities such as banks questions were raised for all the significant measures communicated for regulatory purposes or subtotals that merely reflect reclassification of line items (e.g., subtotals of subtotals).

EFRAG Secretariat analysis

44 The EFRAG Secretariat welcomes the additional clarifications provided by the IASB as detailed in paragraph 42 above as they would improve clarity and consistency of current requirements.

Questions for EFRAG FR TEG

45 Do EFRAG FR TEG members have any comments on the IASB's tentative decisions?

46	Do EFRAG FR TEG members agree with the EFRAG Secretariat analysis?

Sweep issues related to aggregation and disaggregation

Additional clarification about the meaning of the term 'Useful structured summary' and its relationship with the materiality assessment and other requirements related to classification and presentation in the primary financial statements

Description of the issue(s)

47 Based on the IASB's tentative decisions to date (see Agenda Paper 21A of the February 2022 IASB meeting) an entity is required to:

(a) present the required totals and subtotals of 'operating profit or loss', 'profit before financing and income taxes' and 'profit or loss' because they determine the structure of the statement of profit or loss;

(b) present line items listed in IFRS 18 and other IFRS Accounting Standards when the resulting presentation does not detract from a primary financial statement providing an understandable overview—it is unlikely that the presentation of these line items in the operating category would reduce how useful the statement is in providing an understandable overview of the entity's income and expenses;

(c) disclose the line items in (b) in the notes if they are material and not presented in the primary financial statement because they detract from a primary financial statement providing an understandable overview; and

(d) present additional line items and subtotals if such presentations are necessary for the statement to provide an understandable overview of the entity's income, expenses, assets, liabilities and equity.

48 In drafting IFRS 18, the IASB referred to 'useful structured summary' rather than 'understandable overview' used in the IASB's tentative decisions in paragraph 47 because 'understandable overview' is only one aspect of the role of the primary financial statements and 'useful structured summary' encompasses all aspects of the role of the primary financial statements. Therefore, the requirements in paragraph 47(b) and 47(d) were included in the pre-ballot draft of IFRS 18 by requiring an entity:

(a) not to present line items listed in [draft] IFRS 18 and other IFRS Accounting Standards if doing so reduces how effective the statement is in providing a useful structured summary—if these line items are classified in the operating category of the statement of profit or loss, their presentation is unlikely to reduce that effectiveness; and

(b) to present additional line items and subtotals if such presentations are necessary to provide a useful structured summary.

49 Reviewers of the pre-ballot draft of IFRS 18, including EFRAG, asked the IASB to clarify:

(a) the relationship between the concepts of useful structured summary and materiality, including whether useful structured summary should be applied in an overarching way similar to materiality; and

(b) how the concept of useful structured summary is to be applied to determine presentation in the primary financial statements, including whether there are different thresholds for presenting line items listed in [draft] IFRS 18 and other IFRS Accounting Standards and additional line items and additional subtotals.

Recent IASB discussions and tentative decisions

50 At the November meeting the IASB discussed the additional clarifications proposed by the IASB staff in order to address stakeholders' concerns in paragraph 49 above and provided the following comments:

(a) They generally agreed with the need to provide additional clarifications about the term "useful structured summary" as it will be a new and relevant concept for all stakeholders;

(b) Some members highlighted the risk of over-engineering this new concept and therefore suggested to provide short and concise clarifications;

(c) Three members disagreed with the proposal to clarify that an entity would not need to present separately specific line items in a primary financial statement if doing so is not necessary for providing a useful structured summary, even if they are required by other IFRS Accounting Standards (e.g., as minimum line items). In particular:

(i) One of these members pointed out that this approach would impact future standard setting activities increasing complexity every time a specified line item is added (i.e., need to clarify whether this is related to the structure if the primary financial statement or not).

(ii) Another member noted as the proposed definition is mispecified because it is not clear how it interacts with aggregation and disaggregation requirements.

51 Based on the above, the IASB tentatively decided to:

(a) to clarify that an entity need not assess whether the classification requirements determining a primary financial statement's structure will result in a useful structured summary (because applying those requirements will always result in a useful structured summary). All of the 13 IASB members present agreed with this decision. One member was absent.

(b) to clarify that an entity need not present separately a specific line item in a primary financial statement if doing so is unnecessary for the statement to provide a useful structured summary—even if other IFRS Accounting Standards contain a list of specific required line items or describe the line items as minimum requirements. Ten of the 13 IASB members present agreed with this decision. One member was absent.

(c) to remove the proposed application guidance stating that, in general, presenting the list of items set out in the draft Standard in the operating category of the statement of profit or loss would be unlikely to reduce how effective the statement is in providing a useful structured summary. Eleven of the 13 IASB members present agreed with this decision. One member was absent.

(d) to make consequential revisions to the example in the application guidance in the draft Standard on how to aggregate and disaggregate operating expenses. Twelve of the 13 IASB members present agreed with this decision. One member was absent.

EFRAG Secretariat analysis

52 During the pre-balloting process the EFRAG Secretariat suggested the IASB reconsider whether the use of the concept "useful structured summary" did not go beyond the IASB tentative decisions to date as it seemed to introduce exceptions to the general requirements. Specifically, we highlighted the need to provide a clear and understandable definition of this new concept ensuring that it will not override, among the others, the general aggregation/disaggregation principles (e.g., minimum line items to be presented in the primary financial statements).

53 The EFRAG Secretariat agreed with the IASB tentative decision to clarify that an entity is not allowed to override current "structural requirements", which refer to presentation (i.e., required totals and subtotals) and classification requirements (i.e., between the five different required categories), as it would ensure comparability and consistency across entities.

54 However, the EFRAG Secretariat expressed some concerns about the IASB tentative decision to clarify that an entity, in some circumstances, is allowed to not present specific

line items, including those defined (or will be define) as minimum or required line items by other IFRS Accounting Standards, as it would reduce the effectiveness of the general aggregation and disaggregation requirements providing more flexibility and, therefore, reducing comparability across entities.

55 Regarding the proposal in paragraph 51 (c), the EFRAG Secretariat agrees with the IASB tentative decision because providing such an additional application guidance would have not been necessary having defined general aggregation and disaggregation principles.

Questions for EFRAG FR TEG

56 Do EFRAG FR TEG members have any comments on the IASB’s tentative decisions?

57 Do EFRAG FR TEG members agree with the EFRAG Secretariat analysis?

Scope of the disclosure of specified expenses by nature

Description of the issue(s)

58 In [March 2023](#) (see Agenda Paper 21A) the IASB tentatively decided that an entity would be required to disclose the amount of depreciation, amortisation, employee benefits, write-down of inventories and impairments (referred to as specified expenses by nature) included in **each function line item** in the statement of profit or loss.

59 In drafting IFRS 18, the IASB staff noted that it was not clear from this decision:

(a) the scope of entities that are required to provide the disclosure for specified expenses by nature; and

(b) whether an entity should disclose the amounts of specified expenses by nature included in all line items, rather than just function line items, in the statement of profit or loss (e.g., whether an entity should disclose amounts of specified expenses by nature classified in line items outside the operating category, such as depreciation on an investment property classified in the investing category).

60 Therefore, in drafting IFRS 18, to ensure a complete picture of the entity's specified expenses by nature, the IASB staff clarified that:

(a) an entity that presents one or more line items comprising expenses classified by function (including using a mixed presentation) in the statement of profit or loss is required to provide the disclosure for specified expenses by nature; and

(b) an entity is required to disclose the amounts of the specified expenses by nature included in **any line item presented in the statement of profit or loss**.

Recent IASB discussions and tentative decisions

61 At the October 2023 meeting, some IASB members highlighted that the proposed drafting would extend the scope of this disclosure requirement, which aimed to help users of financial statements in understanding how amounts disclosed in the notes on the nature of operating expenses relate to the line items in the primary financial statements. Therefore, they noted that this disclosure requirement should be focused on the specified expenses included in the operating category only.

62 Furthermore, they noted that other IFRS Accounting Standards already require to disclose the total amount of some specified expenses. However, having this information in a single note could be helpful for users.

63 Based on the above, the IASB tentatively decided to confirm that such an entity that presents one or more function line items will be required to disclose in a single note the amounts for the specified expenses that are included in each line item **in the operating category only**. In addition, the entity will be required to include in the same note two disclosures for each specified expense:

(a) the total for the specified expenses by nature, already required in IFRS Accounting Standards; and

(b) an explanation of which line items outside the operating category include any difference between the total of the amounts included in the line items in the operating category and the total described in (a). Such an explanation is already required by a previous tentative decision in September 2021 (Agenda Paper 21D) to provide a qualitative explanation of the line item in which disclosed items are included.

EFRAG's position in its FCL and/or in its Summary report and Recommendations

64 This specific sweep issue did arise from the new proposed drafting of IFRS 18 during the preballoting process (see paragraph 61 above). However, the EFRAG Secretariat noted that in its Summary Report and Recommendations, EFRAG considered the IASB's tentative decision requiring an entity to disclose an analysis of the specified operating expenses by nature when presenting by function a compromise with the objective of achieving a better balance of the related costs and benefits.

EFRAG Secretariat analysis

65 The EFRAG Secretariat continues to agree with the IASB tentative decision in paragraph 603 above for the following reasons:

(a) It would retain the costs and benefit balance. Indeed, impacted entities would be required to provide the amount of the specified expenses included in each line item of the statement of profit or loss within the operating category only. Otherwise, an entity could have incurred additional costs (e.g., costs associated to additional data collection);

(b) Both quantitative and qualitative information, as detailed respectively in paragraphs 60(a) and 60(b) above, aim to meet users' need to understand how amounts disclosed in the notes about operating expenses relate to the line items presented in the statement of profit or loss. This disclosure would complement current requirements in other IFRS Accounting Standards to disclose the total amount of some expenses providing users with helpful information; and

(c) Requiring an entity to disclose in a single note information about the total amount of the specified expenses would improve the disclosure effectiveness providing to users all the useful information in a single location.

Questions for EFRAG FR TEG
66 Do EFRAG FR TEG members have any comments on the IASB's tentative decisions?
67 Do EFRAG FR TEG members agree with the EFRAG Secretariat analysis?

Sweep issues related to Other issues

Transitional relief for additional comparative information

Description of the issue(s)

68 As further discussed at the September 2023 EFRAG TEG-CFSS meeting, the IASB was exploring whether transitional relief would be needed for those entities that need to present more than one comparative information as required by laws or regulations.

69 The transitional relief would be in line with the relief that is provided in other IFRS Accounting Standards (e.g., IFRS 10 and IFRS 17) which:

(a) permits but does not require an entity to present adjusted comparative information and related disclosures for earlier periods than the annual period immediately preceding the date of initial application of the Standard; and

(b) requires entities to:

(i) clearly identify any information provided that has not been adjusted; and

(ii) state that any information that has not been adjusted has been prepared on a different basis and explain that basis.

IASB discussions and tentative decisions

70 At the October 2023 meeting, the IASB members provided mixed views on this topic:

(a) Members that agreed with providing such a transitional relief provided the following comments:

(i) It would ensure a reasonable transition period also to entities that are required to present more than one comparative period without affecting the quality of the implementation process (i.e., more reliable information);

(ii) Not providing for such a relief could push some jurisdictions to postpone the effective date or delay the endorsement of IFRS 18;

(iii) This approach would be consistent with that used to date when a new standard is issued (e.g., IFRS 9, IFRS 15 and IFRS 16 required the restatement of only one comparative period)

(iv) considering that the majority of jurisdictions are requiring only one comparative period, providing this transitional relief should not have relevant impacts on comparability.

(b) Members that disagreed with providing such a transitional relief provided the following comments:

(i) The proposed effective date allows for enough time to prepare for the implementation of IFRS 18;

(ii) It would reduce comparability across entities;

(iii) Additional comparative periods are not required by IFRS Accounting Standards; therefore, regulators should decide in this respect.

71 Based on the above, eight out of thirteen IASB members tentatively decided to provide no transitional relief from retrospective application of IFRS 18 for any earlier periods than the annual period immediately preceding the initial period of application.

EFRAG Secretariat analysis

72 At the September 2023 EFRAG FR TEG-CFSS meeting members provided the following comments:

(a) some European entities listed in the US and for European entities at IPOs are required to present more than one comparative period for regulatory purposes; members were not aware of other laws or regulation in their jurisdiction with similar characteristics;

(b) Some members noted that requiring an entity to reassess all the presented comparative periods could be helpful to ensure more useful and comparable information to users;

(c) Other members noted similar transition requirements were already provided by other IFRS Accounting Standards (e.g., IFRS 10 and IFRS 17) and generally accepted by regulators.

(d) Another member called for additional clarification about the disclosure requirements to be provided in the notes, for example in terms of MPMs and specific operating expenses when presenting by function, when more comparative periods are presented.

73 The EFRAG Secretariat highlights that as an alternative, the IASB could have considered requiring an entity to restate all the comparative periods presented, unless it is impracticable or excluding from the restatement requirements some disclosures, such as disclosure of operating expenses when presenting by function.

74 However, based on the above and considering that only a few entities would be impacted, the EFRAG Secretariat does not disagree with the IASB's tentative decision. Indeed, this approach would provide more comparable and useful information to users of financial statements. Of course, implementation issues will arise for those entities if the new standard is not published in the first half of 2024.

Questions for EFRAG FR TEG

75 Do EFRAG FR TEG members have any comments on the IASB's tentative decisions?

76 Do EFRAG FR TEG members agree with the EFRAG Secretariat analysis?