EFRAG FRB 29 February 2024
Paper 07-02
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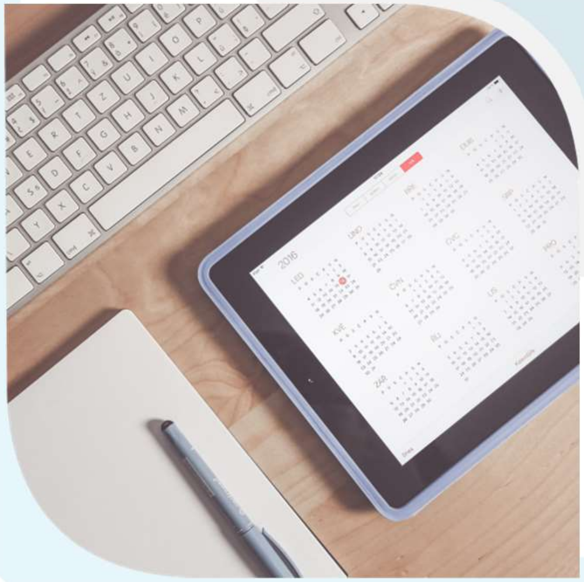
Primary Financial Statements
Status of the project and next steps

EFRAG FRB meeting – 29 February 2024



DISCLAIMER

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OVERVIEW

STATUS OF THE PROJECT

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OVERVIEW

Q4 2019	Q1 2020 - Q3 2020	Q4 2020 - Q3 2023	Q4 2023	April 2024
Exposure Draft published	Consultation period	Redeliberations and begin balloting process	Discussion of sweep issues	Complete balloting process and issue Standard

Objective

- Improve communication in financial statements
- Focus on information included in the statement of profit or loss

Main proposals

- Require additional **defined subtotals** in the statement of profit or loss
- Require disclosures about **management-defined performance measures** (MPMs)
- Enhance requirements for **disaggregating information**

EFRAG

STATUS OF THE PROJECT

TRANSITION PERIOD AND EFFECTIVE DATE

April 2024 — **New IFRS Accounting Standard issued** → Transition Period → 1 January 2027 — **Effective date** → Prepare financial statements → **Financial statements issued**

- All requirements applied at the same time by all entities from the effective date retrospectively in accordance with IAS 8, unless an entity elects to apply the requirements earlier
- Any additional comparative information has to be restated
- Reconciliation of the statement of profit or loss required for the immediately preceding comparative period, including interim reporting
- An entity eligible to apply paragraph 18 of IAS 28 Investments in Associates and Joint Ventures is permitted to change its selection for measuring an investment in an associate or joint venture from the equity method to fair value through profit or loss

LATEST DEVELOPMENTS (2023)

LATEST DEVELOPMENTS – REDELIBERATIONS (2023)

SUBTOTALS AND CATEGORY – IASB'S TENTATIVE DECISIONS

- **Cash and cash equivalents (investing category)** - accounting policy choice to reclassify from investing to the operating category income and expenses arising from cash and cash equivalents for entities that provide financing to customers as a main business activity;
- **Interest expenses on lease liabilities (financing category):** required classification in the financing category of interest expenses on lease liabilities for all entities (i.e., the accounting policy choice to reclassify from financing to operating category is no longer allowed);
- **FX exchange gain or loss (depends)**: an entity has to use its judgement to determine in which category to classify foreign exchange differences on a liability that arises from a transaction that involves operating activities in addition to the raising of finance (undue cost or effort relief);
- **Associates and JV:** income and expenses from equity-accounted investments shall be presented in the investing category (even if an entity invests as part of its main business activities) and the subtotal *"operating profit or loss and income and expenses from investments accounted for using the equity method"* has been added in the list of the specified subtotals (i.e., this subtotal is outside the scope of MPM disclosure requirements)

CLASSIFICATION OF INCOME AND EXPENSES IN THE P&L

GENERAL MODEL

Operating

- Income and expenses from an entity's main business activities
- Income and expenses not classified in other categories (i.e., residual category)
- Includes volatile and unusual income and expenses arising from an entity's operations

Investing

- Income and expenses from assets that generate a return individually and largely independently of the entity's other resources
- Income and expenses from equity-accounted investments
- Income and expenses from investments accounted for using a method other than the equity method
- Income and expenses from cash and cash equivalents

Financing

- Income and expenses from changes in the carrying amount of liabilities that arise from transactions that involve only the raising of finance
- Interest income and expenses and the effects of changes in interest rates from other liabilities, only if such amounts are identified by an entity for the purpose of applying IFRS Accounting Standards (e.g., IAS 19)

Reclassification to the operating category for entities with specified main business activities

LATEST DEVELOPMENTS – REDELIBERATIONS (2023)

MANAGEMENT-DEFINED PERFORMANCE MEASURES (MPMs) – IASB's TENTATIVE DECISIONS

Presumed that a subtotal used in public communications represents the management`s view of an aspect of an entity's financial performance.

- **Cost mitigating factor - Rebuttable presumption for MPMs**: the presumption that a subtotal of income and expenses included in an entity's public communications outside the financial statements is an MPM can be rebutted. The IASB also tentatively decided to add application guidance about what reasonable and supportable information the entity would need to rebut the presumption.
- **Cost mitigating factor – Exclude oral communications, transcripts and social media posts from public communication**
- **Cost mitigating factor – Reconciliation with IFRS numbers – simplified approach for calculating the tax effect**: the IASB confirmed the introduction of a simplified method of calculating the tax effect based on the statutory tax rate for each reconciling items and specific requirements to disclose how each income tax effect has been determined, including application guidance if more than one method is used.
- **MPMs in interim financial reporting (IAS 34):** the IASB decided extending the same disclosures required for the annual financial statements, including requiring sufficient explanation to understand the change, removal or addition of MPM and the underlying reasons, and providing comparative information (unless it is impracticable to do so).

LATEST DEVELOPMENTS - REDELIBERATIONS (2023)

MANAGEMENT-DEFINED PERFORMANCE MEASURES (MPMs) (Cont.)

- **Presentation of MPMs and relationship with IFRS 8:** IASB retained the proposal that disclosures related to MPMs shall be provided in a single note and additionally clarified that MPMs are measures that reflect management's view of the performance of the entity "as a whole". If one or more of an entity's MPMs are the same as part of the operating segment information, all MPMs may be provided in the same note as the operating segment information.

DISAGGREGATION AND OTHERS

- **Cost mitigating factor - Disclosure of specific expenses by nature when presenting by function:** to require an entity to disclose the amounts of depreciation, amortisation, employee benefits, impairments and write-downs of inventory included in each function line item in the statement of profit or loss. Amounts disclosed are not required to be expense amounts (i.e., it could include the amount capitalized).
- **Cash flow statement:** the IASB decided requiring an entity with a specified main business activity to classify cash flows from interest received, interest paid and dividends received (including those from equity-accounted investments) within a single category based on their classification in the P&L (that is, as cash flows from either operating, investing or financing activities).

LATEST DEVELOPMENTS – SELECTED SWEEP ISSUES (2023)

SUBTOTALS AND CATEGORY

- Scope of income and expenses classified in the investing category – classification of incremental expenses;
- Clarification about the classification of income and expenses from specific hybrid contracts by entities that provide financing to customers as a main business activity;
- 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.

LATEST DEVELOPMENTS – SELECTED SWEEP ISSUES (2023)

MPMs

- Minor (as assessed by the IASB) 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;

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;
- Scope of the disclosure of specified expenses by nature;
- No transitional relief for additional comparative information.

EFRAG ACTIVITIES TO DATE AND NEXT STEPS

EFRAG

EFRAG ACTIVITIES TO DATE

OVERVIEW

Q4 2019 – Q4 2020

Issuance of **the CL** to the ED and **field-testing**

Q1 2021 – Q3 2022

Outreaches and discussion on the project updates with EFRAG FR TEG, FRB and WGs

Q4 2022

Targeted outreaches and issuance of the **Summary reports and recommendation**

JAN-SEPT 2023

- Discussion of the **latest IASB's tentative decisions**, including Illustrative Examples, with EFRAG FR TEG, FRB and WGs; and
- **Pre-ballot draft review**

Q4 2023

Discussion of sweep issues

H1 2024

Impact Assessment and **endorsement preparatory work**

EFRAG ACTIVITIES TO DATE – Close monitoring during the redeliberation phase

- The monitoring phase benefited from the targeted outreach which took place at the end of 2022 in conjunction with the IASB. The subject matters covered included topics selected by IASB and additional topics raised by EFRAG. The **Summary Report of the targeted outreach included recommendations**.

DISCUSSION OF THE LATEST IASB TENTATIVE DECISIONS

- In March 2023, EFRAG FR TEG and EFRAG CFSS members received an update on the IASB's tentative decisions relating to its **redeliberation plan update** based on the feedback received during the outreaches. For further details, please refer to the agenda paper of the meeting here.
- From March to September 2023, EFRAG FR TEG, CFSS and FRB members discussed **the latest IASB tentative decisions** held from January to July 2023. For further details, please refer the agenda paper of the September EFRAG FR TEG meeting here.
- Further, the EFRAG Secretariat closely monitored IASB's activity and discussed with the IASB critical points identified so far.

EFRAG ACTIVITIES TO DATE – Close monitoring during the redeliberation phase

DISCUSSIONS WITH FIWG AND IAWG

- In September 2023 the IASB presented to EFRAG FIWG and IAWG a sample of **Illustrative examples** on the new structure of P&L, MPMs disclosures and disclosure of operating expenses by nature. Members provided useful input to the IASB to improve the clarity of these examples.
- Furthermore, in October 2023, EFRAG FIWG was provided with an educational session held by the IASB and focused on the **revised definition of financing category** and the classification of income and expenses arising from derivatives and hybrid contracts.

DISCUSSION OF THE IASB SWEEP ISSUES

- In November 2023, EFRAG FR TEG and EFRAG CFSS members received an update on the IASB's plan to support implementation and consistent application of IFRS 18.
- In November and December 2023, EFRAG FR TEG discussed **the latest IASB tentative decisions about the sweep issues identified.** For further details, please refer the agenda paper of the November and December EFRAG FR TEG meetings.

PROJECT NEXT STEPS

ENDORSEMENT PHASE AND EFRAG PREPARATORY WORK

- After the publication of IFRS 18 (April 2024), the EC is expected to issue the endorsement advice request, which might include specific requests.
- On 17 April 2024 the EFRAG Secretariat expects to present the standard (if already published by that date) to the ARC members (EC).
- In preparation for the issuance of the endorsement advice, the EFRAG Secretariat is planning to perform the following activities:
  - ✓ **Impact assessment analysis** through the analysis of a sample of the 2023 financial statements, which will cover different industries, countries and sizes (further details – EFRAG FR TEG meeting in September); and
  - ✓ **Targeted outreaches to assess the endorsement criteria** (relevance, reliability, comparability, understandability, prudence, true and fair view principle) and whether the standard is **conducive to the European public good** (e.g., quality of financial reporting improvement, costs and benefits analysis).
- Afterwards, EFRAG will issue the **Draft Endorsement Advice** ('DEA') and, based on the analysis of the feedback received during the consultation period, the **Final Endorsement Advice** ('FEA'), which is expected to be finalised in 2025.

PROJECT NEXT STEPS

ENDORSEMENT PHASE AND EFRAG PREPARATORY WORK (Cont.)

- **The IASB has offered to present at EFRAG WG and to organise with EFRAG educational events**. This gives the opportunity to identify endorsement issues timely.
- The following educational meetings are planned:
  - ✓ FIWG, IAWG, RRAWG (May 2024)
  - ✓ Joint FR TEG and User Panel Meeting (14 May 2024)
  - ✓ Preparers (public event) – FI and Corporates separately (end of May – June) - follow up activities, like a Q&A session and / or a survey will help to identify issues to be addressed during the endorsement process
- A survey will be issued, if deemed necessary, based on the output of the meetings with different stakeholders. The surveys will be limited to any specific points raised during these activities or specifically requested by the EC.

QUESTIONS TO EFRAG FRB

- **Does EFRAG FRB agree with the proposed EFRAG preparatory work presented on slides 18 and 19?**
- **Does EFRAG FRB have any remarks regarding the preliminary assessment of the timing of the endorsement preparatory work?**

KEY TOPICS FOR THE ENDORSEMENT PROCESS

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Identification of the preliminary issues collected so far - The list of potential issues might be extended over the next weeks when working through the Standard

- **Classification of income and expenses arising for equity-accounted investments in the investing category -** Mixed views were provided. The EFRAG Secretariat to further investigate cost-benefit balance
  - ✓ Many preparers, especially from the insurance industry, requested presenting investments in associates and joint ventures that are linked to insurance contracts within the operating profit. In particular, they provided the following main comments:
    - this approach would create a mismatch between expenses related to insurance liability included in the operating category and equity-accounted investments results in the investing;
    - the classification of some specific income and expenses would be influenced by an accounting policy choice rather than substantial differences in the business model.
  - ✓ Conversely, users generally welcomed the IASB proposal and disagreed with providing an industry-specific exception. However, those operating in the insurance industry, sympathised with preparers concerns and highlighted the importance of having a clear distinction between those investments that are at the service of insurance liabilities and the others.
  - ✓ Cost mitigating factors introduced by the IASB that only partially addressed some preparers concern are:
    - Introduction of a specified subtotal *“operating profit or loss and income and expenses from investments accounted for using the equity method”*, which would not be an MPM;
    - Application of the fair-value option in accordance with paragraph 18 of IAS 28 only at transition to IFRS 18

KEY TOPICS FOR THE ENDORSEMENT PROCESS

- **Analysis of expenses when presenting by function** – Some preparers continued to express concerns about the costs for providing such a disclosure (e.g., big and complex group, costly IT system changes). Conversely, users generally agreed with the IASB decision which would ensure them with relevant information about the entity
  - ✓ Cost mitigating factor: the amounts disclosed are not required to be expense amounts (i.e., it could include the amount capitalized) – Users expressed some concern about this decision because additional qualitative information only could not allow them to reconcile the amounts disclosed with those presented in the P&L.
- **MPMs – Scoping and rebuttable presumption**
  - ✓ Highly regulated entities, such as banks, raised questions on the effective applicability of the rebuttable presumption for all the significant measures communicated for regulatory purposes;
  - ✓ Used with or without prominence is a highly judgemental concept. It is challenging for auditors and additional clarification only in the BC cannot be enforced.
  - ✓ "Net debt cost"- If all criteria are meet, there would be practical challenges in determining which is the most directly comparable subtotal or total this measure should be reconciled to.

KEY TOPICS FOR THE ENDORSEMENT PROCESS

- **"Useful structured summary" –** This new concept could go beyond the IASB tentative decisions to date as it seemed to introduce exceptions to the general disaggregation requirements (e.g., risk to overriding structural requirement, materiality assessment and so on).
  - ✓ Need to further investigate potential impact on how preparers will structure their financial statements and how users will benefit from these increased flexibility (e.g., entities are allowed to not present separated line items even if required by other standards if that would not provide a useful structured summary).
  - ✓ In addition, it could be useful to understand how this new concept, and the general disaggregation requirements, could be impacted by the forthcoming digitalization (e.g., tagging system).

KEY TOPICS FOR THE ENDORSEMENT PROCESS

- **Definition of the financing category**, specifically for the financial institutions. Classification of income and expenses from liabilities into the financing category, when the underlying liabilities are not of the financial nature (ex. discussions on lease liabilities, other liabilities).
  - ✓ Additional guidance was provided by IASB along with the illustrative examples and flowcharts. Application of the revised approach to be addressed by IASB during the drafting process. EFRAG Secretariat to further investigate the application of the revised guidance during planned roundtables.
- Classification of income and expenses from the **hybrid contracts**, specifically for the financial institutions and insurance industry.
  - ✓ Additional guidance was provided via the illustrative examples and flowcharts. EFRAG Secretariat to further investigate the application of the revised guidance during planned roundtables.
- Classification of income and expenses from the **derivative instruments** in the default operating category and related potential volatility of these instruments.
  - ✓ Additional guidance was provided via the illustrative examples and flowcharts. EFRAG Secretariat to further investigate the application of the revised guidance during planned roundtables.

KEY TOPICS FOR THE ENDORSEMENT PROCESS

- MPM reconciling items - calculation of **tax effect and effect on non-controlling interest (NCI)** for each reconciling item may result in a complex presentation, particularly if an entity also presents by segment (current practice for some entities).
  - ✓ Simplified approach was introduced for the calculation of the tax effects. Calculation of the effect on non-controlling interest (NCI) was not addressed by IASB.
- **Transition requirements**, specifically to the restatement of the comparative periods. The concern related to the cost of the restatement for the entities who are required to provide more than one comparative periods.
  - ✓ No transition relief for the additional comparative periods was provided. EFRAG Secretariat to further investigate the cost for impacted entities.

QUESTIONS TO FRB

- **Does EFRAG FRB have any comments on the preliminary selection of topics summarised on the slides 22 to 26 ?**
- **Does EFRAG FRB have additional topics to be considered by the EFRAG Secretariat for the endorsement at this point in time?**

Appendix 1
KEY CHANGES TO THE ED
Based on the IASB’s redeliberations

KEY CHANGES TO THE ED

SUBTOTALS AND CATEGORY

- **Definition of financing activities** – change in the approach for classifying income and expenses within the financing category and aspects of the proposals for entities with specified main business activities;
- **Cash and cash equivalents (investing category)** – require the classification in the investing category rather than in the financing category, unless an entity invests in assets as main business activity (operating category). Confirm an accounting policy choice to reclassify from investing to the operating category income and expenses arising from cash and cash equivalents for entities that provide financing to customers as a main business activity;
- **Interest expenses on lease liabilities (financing category)** – require the classification in the financing category of interest expenses on lease liabilities for all entities, including when subleasing is a main business activity (i.e., the accounting policy choice to reclassify from financing to operating category is no longer allowed);
- **FX exchange gain or loss (depends)** – require an entity to use its judgement to determine in which category to classify foreign exchange differences on a liability that arises from a transaction that involves operating activities in addition to the raising of finance;

KEY CHANGES TO THE ED

SUBTOTALS AND CATEGORY (Cont.)

- **Associates and JV** – Withdrawal of the distinction between integral and non-integral associates and joints ventures (including related subtotals), required classification in the investing category all income and expenses from equity-accounted investments (even if an entity invests as part of its main business activities) and introduction of a specified subtotal ‘operating profit or loss and income and expenses from investments accounted for using the equity method’ which would not be an MPM.
- **Derivatives and hedging instruments** – under certain conditions, such as the exceptions related to when it would involve grossing up gains and losses and when classifying in the category affected by the covered risk would involve undue cost or effort, income and expenses on derivatives are classified in the operating category as a default category (rather than in the investing category).
- **Presentation of operating expenses** – withdraw of the proposed prohibition on a mixed presentation of operating expenses and provide examples of when a mixed presentation might provide the most useful information (application guidance).

KEY CHANGES TO THE ED

MANAGEMENT-DEFINED PERFORMANCE MEASURES (MPMs)

- **Rebuttable presumption for MPMs -** have a rebuttable presumption that a subtotal of income and expenses included in an entity's public communications outside the financial statements is an MPM. The IASB also tentatively decided to add application guidance about what reasonable and supportable information the entity would need to rebut the presumption.
- **Reconciliation with IFRS numbers – tax effect disclosures**: the IASB confirmed the introduction of a simplified method of calculating the tax effect based on the statutory tax rate for each reconciling items and specific requirements to disclose how each income tax effect has been determined, including application guidance if more than one method is used.
- **MPMs in interim financial reporting (IAS 34):** the IASB decided to extend the same disclosures requirements as for the annual financial statements, including requiring sufficient explanation to understand the change, removal or addition of MPM and the underlying reasons, and providing comparative information (unless it is impracticable to do so).

KEY CHANGES TO THE ED

MANAGEMENT-DEFINED PERFORMANCE MEASURES (MPMs) (Cont.)

- **MPMs vs Operating segment reporting (IFRS 8):** the IASB clarified that MPMs are measures that reflect management's view of the performance of the entity "as a whole" and all disclosures required for MPMs shall be provided either in the same note as the operating segment information or in a separate note.

DISAGGREGATION AND OTHERS

- **Disclosure of specific expenses by nature when presenting by function:** to require an entity to disclose the amounts of depreciation, amortisation, employee benefits, impairments and write-downs of inventory included in each function line item in the statement of profit or loss. Amounts disclosed are not required to be expense amounts (i.e., it could include the amount capitalized).
- **Cash flow statement:** the IASB decided requiring an entity with a specified main business activity to classify cash flows from interest received, interest paid and dividends received (including those from equity-accounted investments) within a single category based on their classification in the P&L (that is, as cash flows from either operating, investing or financing activities).

KEY CHANGES TO THE ED

DISAGGREGATION AND OTHERS (Cont.)

- **Useful structured summary:** the IASB introduced a new concept describing the role of the primary financial statements. In particular, the IASB clarified 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). The IASB further clarified 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.

Appendix 2
IASB'S ILLUSTRATIVE EXAMPLES

IASB'S ILLUSTRATIVE EXAMPLES

ILLUSTRATIVE EXAMPLE 1 – P&L OF AN INVESTMENT AND RETAIL BANK*

Interest revenue
Interest expense
Net interest income
Fee and commission income
Fee and commission expenses
Net fee and commission income
Net trading income
Net investment income
Credit impairment losses
Employee benefits
Depreciation and amortisation expenses
Operating profit

Operating

Share of profit or loss of associates and joint ventures
Operating profit and income and expenses from equity method investments
Interest expense on pension and lease liabilities

Non-main Investing and financing

Profit before tax
Income tax expense
Profit for the year

Line items illustrate what is classified in each category and do not necessarily denote line items that a company would present. An entity would present line items that provide a useful structured summary of its income and expenses.

Entity invests in financial assets and provides financing to customers as a main business activity.

Entity classifies in the operating category income and expenses from assets that generate a return individually and largely independently of other resources held by an entity.

Because Entity invests in financial assets as a main business activity, income and expenses from cash and cash equivalents are classified in the operating category.

Entity exercises accounting policy choice to classify in the operating category all income and expenses from transactions that involve only the raising of finance and is therefore prohibited from presenting 'profit before financing and income tax'.

**Source:* Primary Financial Statements - Effects Analysis (ifrs.org)

IASB'S ILLUSTRATIVE EXAMPLES

EFRAG

ILLUSTRATIVE EXAMPLE 2—P&L OF AN INSURANCE ENTITY*

Insurance revenue	Operating
Insurance service expenses	
Insurance service results	
Interest revenue	
Other investment revenue	
Credit impairment losses	
Insurance finance expenses	
Net financial result	
Other operating expenses	
Operating profit	
Share of profit or loss of associates and joint ventures	Investing
Operating profit and income and expenses from associates and joint ventures / Profit before financing and income tax	
Interest expense on borrowings and pension liabilities	Financing
Profit before tax	
Income tax expense	
Profit for the year	

Line items illustrate what is classified in each category and do not necessarily denote line items that a company would present. An entity would present line items that provide a useful structured summary of its income and expenses.

Entity invests in financial assets as a main business activity, but does not provide financing to customers as a main business activity.

Entity classifies in the operating category income and expenses from assets that generate a return individually and largely independently of other resources held by an entity.

Because Entity invests in financial assets as a main business activity, income and expenses from cash and cash equivalents are classified in the operating category.

Entity classifies in the financing category all income and expenses from transactions that involve only the raising of finance.

Source: Primary Financial Statements - Effects Analysis (ifrs.org)

IASB'S ILLUSTRATIVE EXAMPLES

EFRAG

ILLUSTRATIVE EXAMPLE 3—DISCLOSURE OF SPECIFIED EXPENSES BY NATURE*

This table shows the amount of **depreciation, amortisation, employee benefits, impairment losses and write-down of inventories** included in each line item in the statement of profit or loss.

The amounts disclosed do not need to be the amounts recognised as an expense in the period (for example, the amounts disclosed could include amounts that have been recognised in the period as part of the carrying amount of an asset)

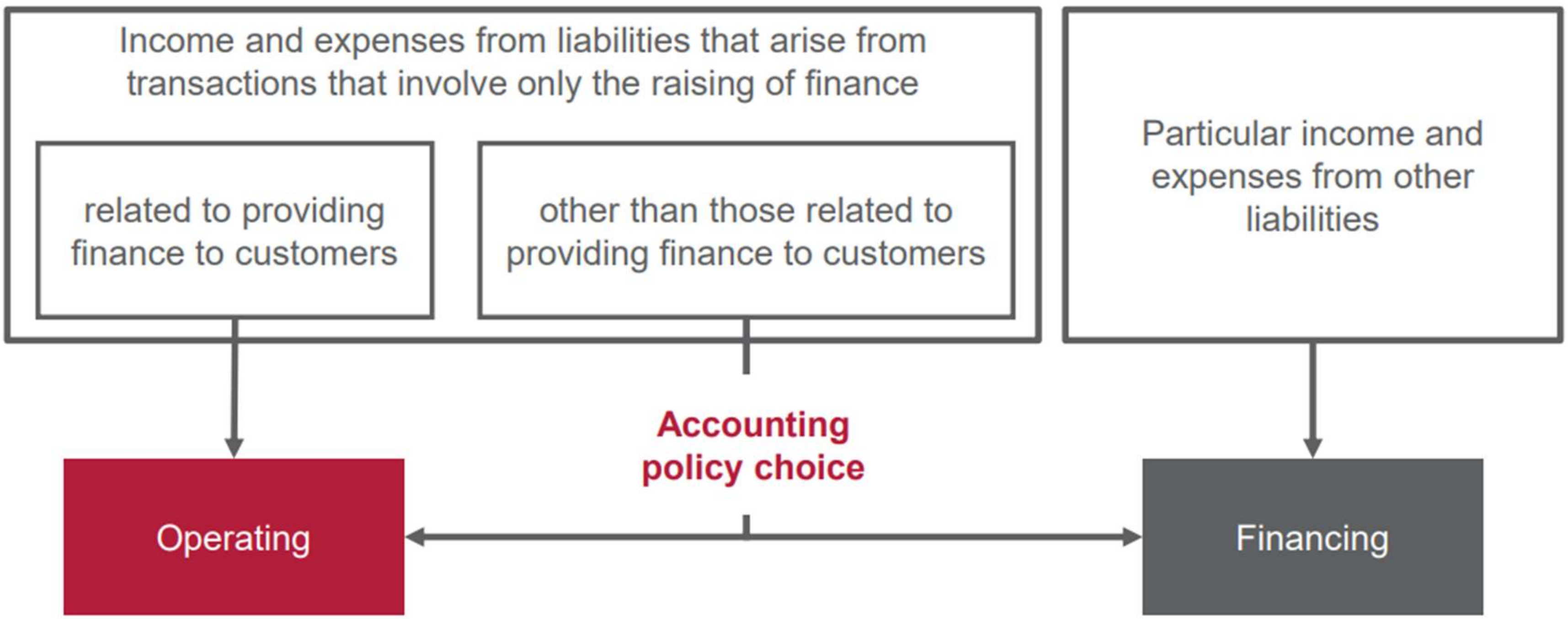
If the **amounts disclosed do not represent expense amounts**, an entity shall give a qualitative explanation of that fact, including the identification of which assets the amounts have been recognised as part of the carrying amount

(in currency units)	20X2	20X1
Cost of goods sold	23,710	21,990
Research and development expenses	2,518	2,596
General and administrative expenses	4,975	4,975
Total depreciation	**31,203**	**29,561**
Research and development expenses	13,842	12,693
Total amortisation	**13,842**	**12,693**
Cost of goods sold	61,646	57,174
Selling expenses	7,514	7,111
Research and development expenses	6,547	6,750
General and administrative expenses	5,421	5,824
Total employee benefits	**81,128**	**76,859**
Research and development expenses	1,600	1,500
Goodwill impairment loss	4,500	–
Total impairment loss	**6,100**	**1,500**
Cost of goods sold	2,775	2,625
Other operating expenses	–	4,900
Total write-down of inventories	**2,775**	**7,525**

Source: [Primary Financial Statements - Effects Analysis (ifrs.org)]

IASB'S ILLUSTRATIVE EXAMPLES

ACCOUNTING POLICY CHOICE FOR ENTITIES THAT PROVIDE FINANCING TO CUSTOMERS AS A MAIN BUSINESS ACTIVITY *



*Source: *Emerging Economies Group meeting, 30-31 October 2023 (ifrs.org)*

IASB'S ILLUSTRATIVE EXAMPLES

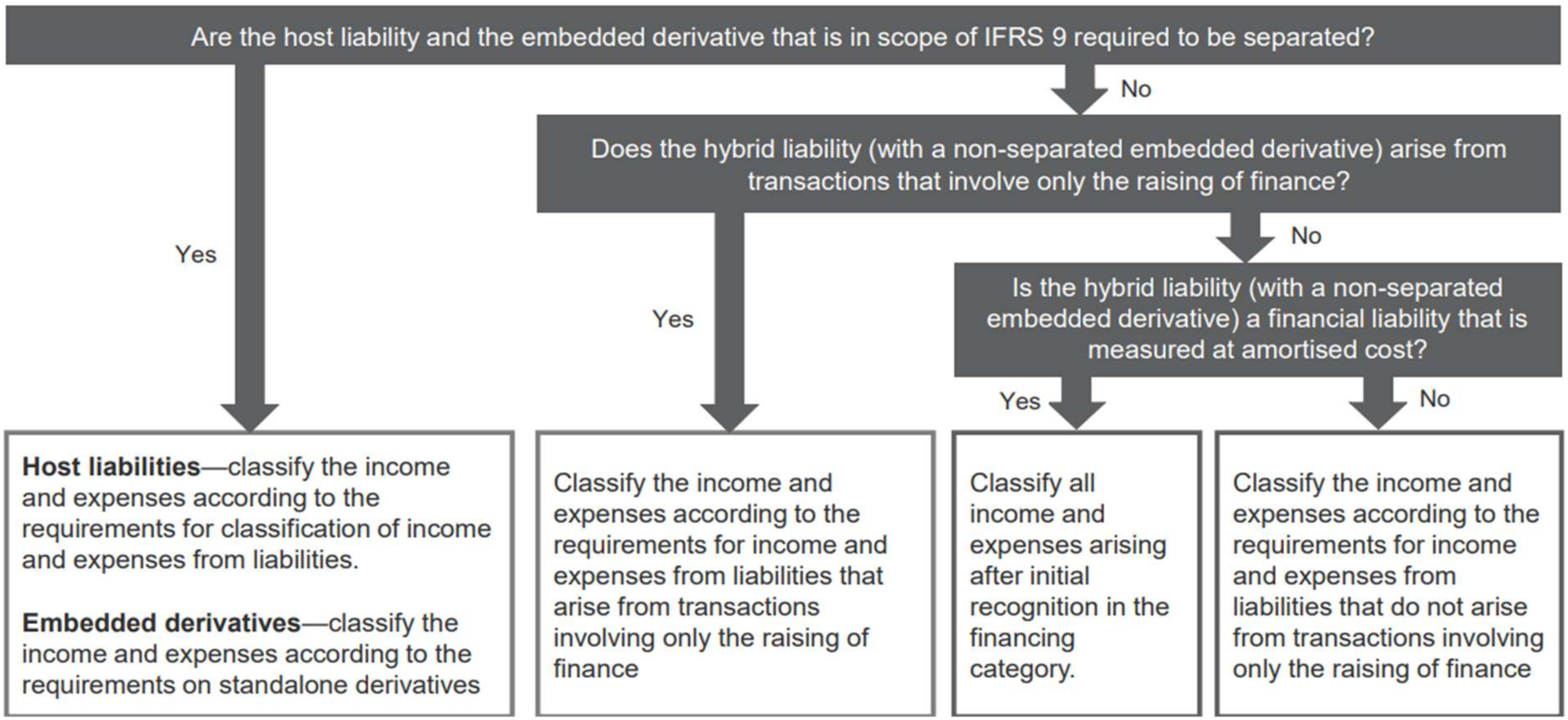
CLASSIFICATION OF GAINS OR LOSSES FROM DERIVATIVES AND DESIGNATED HEDGING INSTRUMENTS*

<table>
<tr><th colspan="2" rowspan="2"></th><th colspan="2">Gains and loss on</th></tr>
<tr><th>Derivatives</th><th>Non-derivative financial instruments</th></tr>
<tr><td rowspan="2">Used to manage particular risks</td><td>Hedging instrument</td><td colspan="2">Same category as the income and expenses affected by the particular risk the company manages, except when it would require the grossing up of gains or losses—then classify in the operating category</td></tr>
<tr><td>Instruments not designated in hedging relationships</td><td>Same category as the income and expenses affected by the particular risks the entity manages, except when it would require the grossing up of gains or losses or involve undue cost or effort—then classify in the operating category</td><td rowspan="2">Category determined by the requirements related to the classification of income and expenses for each asset or liability</td></tr>
<tr><td colspan="2">Not used to manage particular risks</td><td>Financing category if the derivative is a part of a transaction that involves only the raising of finance—otherwise operating category</td></tr>
</table>

*Source: [Emerging Economies Group meeting, 30-31 October 2023 (ifrs.org)]

IASB'S ILLUSTRATIVE EXAMPLES

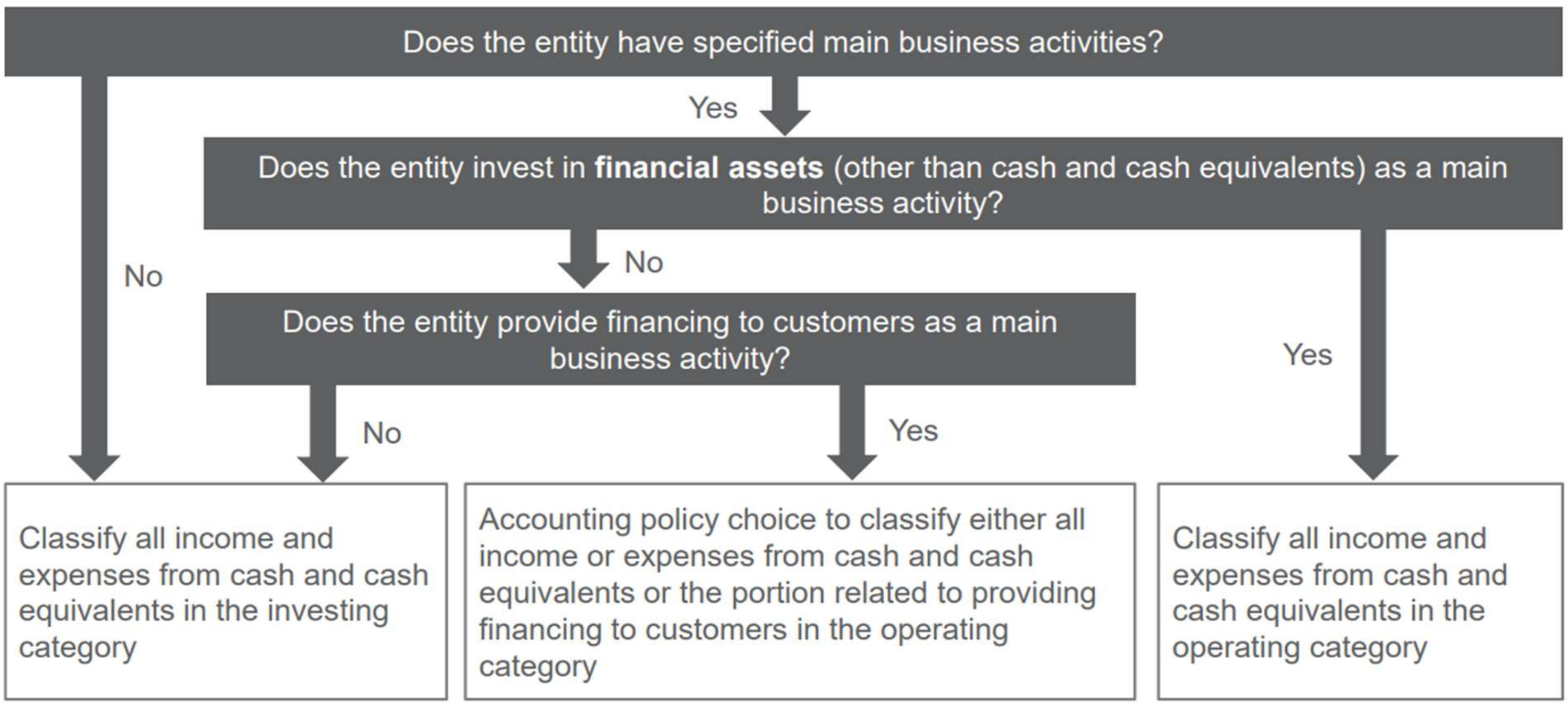
CLASSIFICATION OF INCOME AND EXPENSES ON HYBRID CONTRACTS WITH HOST LIABILITIES*



**Source:* [Emerging Economies Group meeting, 30-31 October 2023 (ifrs.org)]

IASB'S ILLUSTRATIVE EXAMPLES

INCOME AND EXPENSES FROM CASH AND CASH EQUIVALENTS *



**Source:* Emerging Economies Group meeting, 30-31 October 2023 (ifrs.org)

IASB'S ILLUSTRATIVE EXAMPLES

ILLUSTRATIVE EXAMPLE 4—DISCLOSURE OF MPMS (1/2)*

MPM note—Narrative information

The Group uses 'adjusted operating profit' and 'adjusted profit' as management performance measures in its financial communications with users of financial statements. These measures provide management's view of an aspect of the Group's financial performance as whole. They are not specified by IFRS Accounting Standards and therefore may not be comparable to apparently similar measures used by other entities. […]

The management performance measures have been calculated by adjusting for the effect of the following items which, in the view of the Group's management, should be considered separately when assessing trends:

(1) Unusual income and expenses—these are not expected to arise for several future annual reporting periods, unlike other items in the statements of financial performance.

[…]

The Group identified the following unusual income and expenses in 20X2 and 20X1:

[…]

20X2: Restructuring—The Group decided to move one of its factories from Country C to Country D because of uncertainty caused by proposed legal changes which would restrict the operation of foreign companies in Country C. Restructuring expenses were recognised, made up of redundancy expenses for factory staff of CU2,050, impairment losses on factory machinery of CU3,350 and losses on extinguishment of loans of CU600. The Group identified these expenses as unusual expenses because it does not expect to conduct such a significant restructuring for several future annual reporting periods, and such expenses are only expected to arise from significant restructuring.

[…]

The tax effect of the revenue adjustment is calculated based on the statutory tax rate applicable in Country A at the end of the reporting period, which is 15.5 % in both 20X2 and 20X1. The tax effect of property tax being abolished is calculated based on the amount of property tax in 20X2 and the rate of income tax that was effective at the end of 20X2. The tax effect of restructuring in Country C is calculated based on a reasonable pro rata allocation of the current and deferred tax related to Country C in 20X2. Litigation expense from court case X does not have a tax effect because these expenses are not tax-deductible or chargeable.

In the notes the entity provides narrative information including:

- The MPMs identified;
- Statement that MPM provides management's view and not comparable to MPM of other entities;
- the unusual income and expenses included in the reconciliation;
- a description of how the income tax effect has been calculated for each reconciling items.

*Source: PowerPoint Presentation (ifrs.org) – IASB ASAF meeting July 2023

IASB'S ILLUSTRATIVE EXAMPLES

ILLUSTRATIVE EXAMPLE 4—DISCLOSURE OF MPMS (2/2)*

MPM note—Reconciliation and additional information**

20X2 (in currency units)	MPM	Revenue adjustment	Property tax	Restructuring	Measure specified by IFRS Accounting Standards
Revenue		(6,200)	-	-	
Cost of goods sold				(4,990)	
General and administrative expenses		–	(2,500)	(410)	
Adjusted operating profit / Operating profit	**55,370**	(6,200)	(2,500)	(5,400)	**41,270**
Income and expenses from borrowings		–	–	(600)	
Income tax expense		961	625	900	
Adjusted profit / Profit	**40,075**	(5,239)	(1,875)	(5,100)	**27,861**
Profit attributable to non-controlling interests (NCI)		–	–	(300)	

Furthermore, the entity provide a reconciliation between the entity's management-defined performance measures and the most directly comparable subtotal or total specified by IFRS Accounting Standards, including the following information:

- The NCI and Income tax effect for each reconciling items;
- For each reconciling items, the amount included in each line item(s) presented in the P&L.

** Comparative reporting period is not depicted in example for simplification purposes.

Source: PowerPoint Presentation (ifrs.org) – IASB ASAF meeting July 2023

IASB'S ILLUSTRATIVE EXAMPLES

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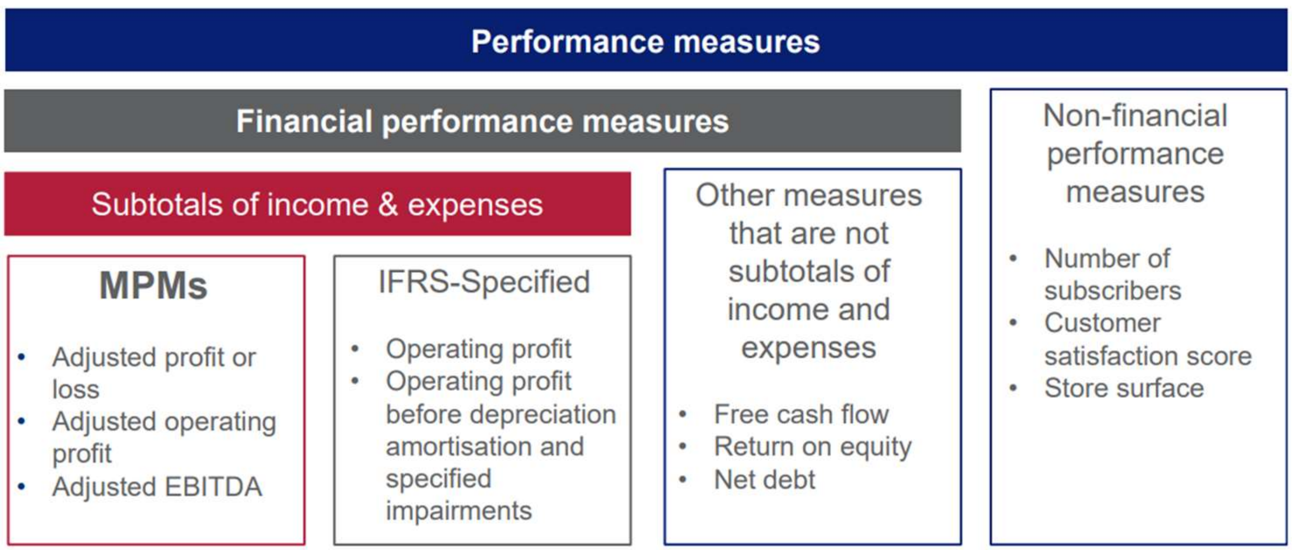
MANAGEMENT-DEFINED PERFORMANCE MEASURES*



Definition of MPMs:

Subtotals of income and expenses not specified by IFRS Accounting Standards, used in public communications outside financial statements, communicate management's view of an aspect of an entity's financial performance

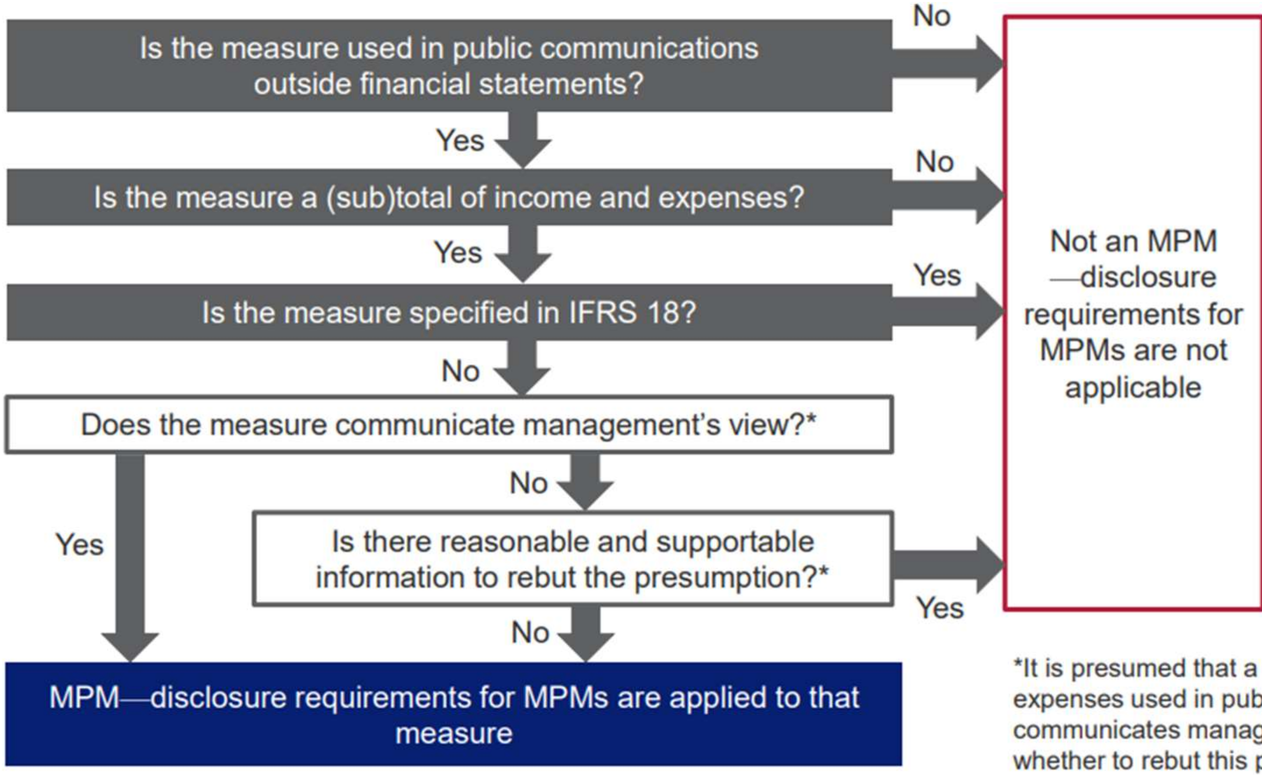
Presumed that a subtotal used in public communications represents management's view of an aspect of an entity's financial performance.

The presumption can be rebutted with reasonable and supportable information.

**Source:* [PowerPoint Presentation (ifrs.org)] – IASB ASAF meeting July 2023

IASB'S ILLUSTRATIVE EXAMPLES

MANAGEMENT-DEFINED PERFORMANCE MEASURES*



*It is presumed that a (sub)total of income and expenses used in public communications communicates management's view, assessing whether to rebut this presumption is optional.

**Source:* PowerPoint Presentation (ifrs.org) – IASB ASAF meeting July 2023

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THANK YOU

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