

SUMMARY REPORT AND RECOMMENDATIONS

TARGETED OUTREACH EVENTS ON PRIMARY FINANCIAL STATEMENTS: FROM SEPTEMBER TO DECEMBER 2022

December 2022



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Introduction

In order to receive input from preparers and to stimulate the discussion on the key tentative changes to the IASB® proposals included in the Exposure Draft *General Presentation and Disclosures* (as a result of the IASB's redeliberations) (the "ED" or "2019 ED"), from September to November 2022, EFRAG and the IASB arranged joint outreach roundtables with European Stakeholders. This report has been prepared for the convenience of European constituents to summarise the information received during those events and to contribute to the IASB's due process on the proposals included in the ED.

The purpose of the targeted outreach activity was to assess whether the selected tentative decisions made by the IASB will function as intended and achieve the intended balance of costs and benefits.

The information obtained in the outreach will also:

- help the IASB in completing its due process and will be used to support the IASB's decisions on any of the proposals before issuing an IFRS Accounting Standard; and
- support EFRAG's potential endorsement advice activities once the final IFRS Accounting Standard is published.

IASB Exposure Draft

On 17 December 2019, the IASB published an ED that included proposals to improve how information is communicated in the financial statements, with a focus on the statement of profit or loss.

The ultimate objective is to replace IAS 1 *Presentation of Financial Statements* with a new IFRS Accounting Standard that would comprise new requirements on presentation and disclosures in the financial statements and requirements brought forward from IAS 1 with only limited changes to the wording. It also sets out proposed amendments to other IFRS Accounting Standards.

The IASB expects that the proposals in the ED will affect all entities that apply IFRS Accounting Standards, including financial institutions. However, the effect of these proposals will vary among entities depending on their current practice.

The ED was open for comments until 30 September 2020.

EFRAG's Final comment letter

In its [final comment letter](#) EFRAG supported the IASB's efforts to improve the content and structure of the financial statements. However, EFRAG decided to give more prominence to the concerns raised by its constituents during its consultation period.

More specifically, EFRAG supported the IASB's proposals to present an operating, investing and financing category in the statement of profit or loss to improve comparability and reduce diversity in practice on presentation. However, EFRAG stated that it had reservations over some of the proposals in the ED. For example:

- clear application guidance is needed on the notion of 'entity's main business activity' to distinguish between categories in the statement of profit or loss;
- the proposals should consider the interaction with existing regulatory frameworks on presentation of financial statements;
- the newly created categories in the statement of profit or loss are not aligned with the presentation of cash flows in the statement of cash flows, despite using similar labelling;
- the 'free' accounting policy choice in paragraph 51(b) of the ED, while being useful for banks, may result in the loss of relevant information for users when used by non-financial institutions (e.g., manufacturer providing financing to customers); and
- the IASB should further consider how its proposals should be applied in specific circumstances, including the interaction of the IASB's proposals with IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*.

EFRAG considered that the distinction between integral and non-integral associates and joint ventures could provide relevant information to users. However, EFRAG was concerned that the IASB's proposed definition would involve significant judgement and, therefore, proposed that the IASB:

- clarify the terms 'main business activity', 'generate a return individually and largely independently of the other assets of the entity' and 'significant interdependency';
- expand the new paragraph 20D of IFRS 12 *Disclosure of Interests in Other Entities* to widen the scope of integral associates and joint ventures, include additional indicators and more examples with the objective of reducing the level of judgement involved;
- require the presentation of the results of all associates and joint ventures below the subtotal 'operating profit or loss', as a separate line item within the subtotal 'operating profit or loss and income and expenses from associates and joint ventures'. In addition, EFRAG suggested that the IASB require the split between 'integral' and 'non-integral' in the notes to the financial statements. EFRAG noted that in accordance with paragraph 66 of the ED, entities can always make the split on the face of the financial statements if such split is considered useful; and
- for entities that invest in the course of their main business activities, investments in associates and joint ventures that are part of an entity's investment strategy and where substantially all risks and rewards impact parties other than shareholders (e.g., investments that fund insurance liabilities included in the operating category) should also be presented in the operating category.

EFRAG supported the IASB's proposal to continue requiring entities to present an analysis of expenses using either by-function or by-nature method, based on whichever method provides the most useful information to users. Nonetheless, EFRAG recommended that the IASB further investigate the cost/benefit profile of its requirement to disclose on a by-nature basis in the notes when presenting by-function on the face of the financial statements, and, if appropriate, consider focusing on information that is most needed by users.

EFRAG welcomed the IASB's efforts to define unusual income and expenses and to require entities to disclose such items in the notes, however EFRAG considered that the definition of unusual items seemed to be rather narrow, as it focuses on whether expenses/income will occur in the future.

EFRAG welcomed the IASB's efforts to provide guidance on management performance measures. Nonetheless, EFRAG considered that not only subtotals on the face of the statement of profit or loss but also other measures, such as indicators of financial position or ratios, should be included in the scope of this requirement. EFRAG also invited the IASB to consider:

- making the definition of public communication narrower, limiting the scope to the MPMs presented in public communications released jointly with the annual or interim reports;
- excluding performance measures required by regulators; and
- extending the scope to cover possible MPMs presented in the financial statements but not in other public communications.

IASB Targeted Outreach Activities

After redeliberating the key aspects of the proposals, the IASB decided to conduct outreach activities on a targeted selection of its tentative decisions through roundtable discussions in coordination with National Standard Setters (“NSS”).

The objective of the targeted outreach was to receive feedback from a range of stakeholders that will help the IASB to assess whether their selected tentative decisions will function as intended and achieve the intended balance of costs and benefits. The information obtained in the outreach will help the IASB in completing its due process on the proposals in the ED and will be used to:

- explore some issues further as part of considering comments received on the ED;
- understand the likely effects of the proposals that will be summarised in an effect analysis report; and consequently; and
- support the IASB’s decision on whether to re-expose any of the proposals before issuing the IFRS Accounting Standard.

The IASB sought feedback on the following topics:

- **Subtotals in the statement of profit or loss:** questions on the IASB’s tentative decision to change the approach for classifying income and expenses within the financing category and aspects of the proposals for entities with specified main business activities;
- **Management performance measures (MPMs):** questions on the IASB’s tentative decision to introduce a rebuttable presumption that a subtotal of income and expenses included in public communications outside financial statements represents management’s view of an aspect of the entity’s financial performance applying the proposed definition and the proposed simplified method of calculating the tax effect for reconciling items;

- **Disclosure of operating expenses by nature:** questions on the IASB's revised proposal to require an entity to disclose the amounts included in each line item in the statement of profit or loss for depreciation, amortisation, and employee benefits; and
- **Unusual income and expenses:** questions on the IASB's tentative decision to not proceed with any specific requirements for unusual income and expenses as part of this project.

EFRAG Outreach activities

EFRAG organised and participated in the following outreach events and stakeholder meetings in partnership with the IASB and NSS:

- Two roundtables with corporate companies, including those that have investing or financing activities as their main business activities (24 October and 4 November 2022);
- One roundtable with financial institutions, including insurance companies and conglomerates (2 November 2022);
- One roundtable with users, preparers, and auditors, in the form of a public webinar, with the objective of discussing whether the IASB's tentative decisions achieved the intended balance of costs and benefits (15 November 2022);
- Discussions with EFRAG Working Groups (EFRAG User Panel, EFRAG FIWG, EFRAG IAWG, EFRAG RRAWG, and EFRAG Academic Panel on 24 October, 25 October, 3 November, 8 November and 29 November 2022 respectively) and other closed meetings; and
- Participated in events organised by NSS.

EFRAG sought feedback on the following topics (in addition to those raised by the IASB):

- The classification of income and expenses from subsidiaries, associates and joint-ventures;
- The IASB's new approach on the classification of items in the financing category, including the new application guidance on classification of hybrid contracts with host liabilities and embedded derivatives;
- The classification of income and expenses from derivatives and hedging instruments; and
- Changes to the scope and requirements on MPMs.

EFRAG considered that it was important to have feedback from European stakeholders on these topics.

Executive summary of the responses received and recommendations

In general, participants in the roundtable discussions welcomed the IASB's efforts to improve the structure and content of primary financial statements, particularly users of financial statements, as it would improve comparability. Participants also welcomed the roundtables organised by EFRAG and the IASB's efforts to address the comments received by the IASB on its ED, particularly on difficult topics such as disclosures by nature when presenting by function and the proposed disclosures on unusual income and expenses.

However, some preparers noted that the IASB's proposals would still lead to considerable implementation costs for them in specific areas, such as the proposed disclosures by nature when presenting by function. Participants in the roundtables also raised a number of questions and expressed concerns on the IASB's tentative decisions.

Some of these questions and concerns had already been raised in the IASB's consultation on the 2019 ED. Nonetheless, most of the concerns and questions were related to the implementation of the revised proposals. The key concerns expressed by participants were:

- **Operating category:** there were questions on the classification of specific items and concerns on having an operating category defined as a residual category, which would be wide and reflect ancillary activities and unusual items (similar feedback was received in the 2019 ED consultation). For conglomerates, determining the entity's main business activities at the reporting-entity level will be complex and costly;
- **Financing category:** the wording used by the IASB to define the financing category was not always well understood and there was a call for additional application guidance. Many financial institutions also expressed concerns on the IASB's revised proposal on the classification of income and expenses from lease liabilities, which could no longer be reclassified into the operating category under paragraph 51 of the ED;
- **Cash and cash equivalents:** both users and preparers highlighted that it would be more appropriate for corporates to present income and expenses from cash and cash equivalents in the financing category, particularly for those that use a net-debt concept. Financial institutions and conglomerates were also concerned about not having the possibility of classifying income and expenses from cash and cash equivalents within operating profit under paragraph 51 of the ED;
- **Hybrid contracts:** the IASB's tentative decisions were considered unclear and there was a call for the IASB to provide the underlying rationale and more application guidance on its tentative decisions;
- **Derivatives:** corporate companies expressed concerns that the default category for the classification of derivatives and hedging instruments was now the operating category;
- **Associates and joint ventures:** there were mixed views on the presentation of income and expenses from associates and joint ventures (similar feedback was received in the 2019 ED consultation) and many questions were raised on the use of additional subtotals related to

associates and joint ventures (e.g., interaction of such subtotals with the IASB's proposals on specified subtotals and MPMs);

- **Associates and joint ventures for insurance companies:** the insurance industry highlighted that the issue of associates and joint ventures is important and requested presenting investments in associates and joint ventures that are linked to insurance contracts within the operating profit. Else, there would be a mismatch as the operating category would only include expenses related to insurance contract liabilities and no associated investment results from the assets held to service those liabilities;
- **Analysis of expenses:** users and preparers often expressed different views on the proposed disclosures. Users and a few preparers were more supportive of the IASB's approach included in the 2019 ED, while other preparers preferred the IASB's revised disclosures. However, targeted outreach participants (including users) acknowledged that the IASB's tentative decision was a compromise, even if it will be costly for preparers;
- **Management performance measures:** there were questions on the extent to which additional subtotals would be considered as MPMs. 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. Finally, there were mixed views on the simplified approach to calculating the tax effect; and
- **Unusual items:** although many preparers welcomed the IASB's tentative decision to withdraw its proposals on unusual income and expenses, the majority of users and regulators were disappointed with the IASB's decision. These considered that any high-level application guidance would be useful to mitigate diversity in practice.

Finally, several participants highlighted the importance of completing the project as soon as possible as it was considered very useful. In this respect, these participants were willing to reach a compromise in order to support a timely publication of a future standard.

Considering the feedback received and EFRAG's position in its letter to the IASB on the 2019 ED, EFRAG considers that it would be useful to:

- **Operating category:** retain the existing approach but consider the comments provided by EFRAG in its comment letter on the IASB's 2019 ED (please see below for more details) and support it with an explanation of the reasoning behind the chosen approach and its resulting impact on the use of MPMs in the Basis for Conclusions;
- **Financing category:** improve the definition of the financing category by providing application guidance to better explain the wording used by the IASB in its definition and illustrate how its definition would apply to some transactions;
- **Cash and cash equivalents:** classify income and expenses from cash and cash equivalents in the financing category as it would provide relevant information to users, particularly when corporates use a net-debt concept. In addition, for financial institutions and conglomerates, it would be useful to retain the possibility of classifying income and expenses from cash and cash equivalents in the operating category under paragraph 51 of the ED;

- **Hybrid contracts:** have additional clarifications and application guidance (e.g., illustrative examples and/or flowchart to help implementation) to help preparers understand the mechanics of the IASB's tentative decisions, including determining when hybrid instruments should be classified in the operating category;
- **Derivatives:** clarify the IASB's proposals 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;
- **Associates and joint ventures:** have more information and transparency on the nature of the investments in associates and joint ventures in the disclosures (e.g., investees that are also in the value chain of the group and as such closely linked to their operations) and have clarifications on the interaction of having additional line items and subtotals (in accordance with paragraph 66 of the ED) with the IASB's proposals on specified subtotals and MPMs, including when the reconciliation disclosure requirements would apply;
- **Associates and joint ventures for insurance companies:** present results from investments in associates and joint ventures that are linked to insurance contracts (e.g., that are backing up insurance liabilities) in the operating category. Otherwise, there would be a mismatch as the operating category would only include expenses related to insurance contract liabilities and no associated investment results from the assets held to service those liabilities;
- **Analysis of expenses:** retain the IASB's revised approach on requiring companies to disclose an analysis of their operating expenses by nature when presenting by function but would suggest adding impairments to the list of minimum items to be disclosed. In addition, EFRAG is not in favour of an approach for an entity to disclose, for all operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss. Finally, the analysis of the costs and benefits of the proposed disclosures should be carefully explained in the IASB's effects analysis;
- **Management performance measures:** have additional application guidance on the extent to which additional subtotals (e.g., subtotals of subtotals and subtotals merely reflecting reclassification of line items) would be permitted and whether they would be considered as MPMs or specified subtotals. EFRAG also expresses some concerns on establishing a rebuttable presumption on MPMs for highly regulated entities as this could increase complexity and may unintendedly enlarge the scope of MPMs. EFRAG is concerned that the IASB's tentative decision to require an entity to disclose, for each reconciling item, the amount(s) related to each line item(s) in the statement(s) of financial performance may significantly increase the costs for some preparers; and
- **Unusual items:** have a definition of unusual items (a workable definition that could be improved in the future with practice) or at least information on how an entity defines its unusual items (if the entity identifies such items in the financial statements). It would also be useful to provide clarity on the possibility of showing separately in the statement of profit or loss items that an entity views as non-recurring or unusual items (e.g., a subtotal within the IASB's required subtotals).

Finally, EFRAG highlights that this project responds to a strong demand from users of financial statements to have improvements on how information is communicated in the financial statements.

Summary of the responses received and recommendations

Operating category

Although the IASB did not include specific questions on the operating category, participants in the roundtable discussions have highlighted some concerns on the definition of the operating category.

More specifically, there were questions on how the IASB's proposals would apply to specific transactions (e.g., disposal of subsidiaries) and concerns about having an operating category defined as a residual category. As a result, the operating category would be very wide and reflect many ancillary activities and unusual items.

This issue was particularly relevant for companies, including conglomerates and financial institutions, that currently use the operating profit or loss subtotal as a key measure for management to explain their performance and will have to make use of management performance measures in the future to explain their performance (e.g., exclude items viewed by stakeholders as unusual and ancillary activities). There were also questions on the articulation between the IASB's proposals in the ED (e.g., operating category as defined by the IASB and MPMs) and segment reporting provided in accordance with IFRS 8 *Operating Segments*, including concerns that changes to the presentation of the statement of profit or loss would result in misalignment with segment disclosures.

In addition, conglomerates referred to the challenges and implementation costs of the IASB's proposal to determine the entity's main business activities at the reporting-entity level. Having a different assessment at group, sub-group and legal entity levels would require adjustments to the reporting structure, which would be costly and could be confusing internally and for investors, especially if several capital market-oriented sub-groups within an entire group are required to prepare IFRS consolidated financial statements which are used for capital market communication.

Recommendations

Feedback from the outreach still shows that there are reservations on having an operating category defined as a residual category. Nonetheless, as highlighted in its comment letter to the IASB 2019 ED, EFRAG recalls that in accordance with paragraph 42 of the ED, entities are required to define and present additional line items or subtotals within operating profit when such presentation is relevant and/or to use MPMs (e.g., 'adjusted operating profit') if entities wish to present minor or ancillary business activities and unusual items separately within operating profit or loss.

In order to enhance the understandability of the resulting information, EFRAG continues to consider that when entities choose to present on the face of the statement of profit or loss additional line items or subtotals for their residual or ancillary operating activities, specific disclosure should be required, including a narrative description of the nature of the entity's operations, its main business activities and residual or ancillary activities, as this would help users understand the classification of income and expenses in the different categories. In addition, the IASB should consider improvements to the interaction between the proposal in the ED and IFRS 8, by, for example, including minor or auxiliary business activities (i.e., not main business activities) as a different segment.

Finally, as also mentioned in EFRAG's comment letter, it would be useful if the IASB could explain (e.g., Basis for Conclusions) how entities with different business activities should present their financial statements, especially when considering the example provided by the IASB in paragraph

IE11 of the Illustrative Examples and the IASB's recent tentative decisions on the assessment of a main business activity (e.g., information about operating and reporting segments).

Financing Category

Many preparers and users that participated in the roundtables welcomed the IASB's proposal to classify 'Income and expenses from liabilities that arise from transactions that involve only the raising of finance' in the financing category as it will help users understand the performance of an entity regardless of how it is financed and understand what is included in the cost of debt.

Nonetheless, some preparers considered that the wording used by the IASB to define the financing category was difficult to understand and implement. These preparers called for additional application guidance on the revised definition of financing category, including on transaction costs and cost of borrowing, to avoid diversity in practice.

In addition, many preparers, particularly from financial institutions, expressed concerns on the IASB's revised proposal on the classification of income and expenses from lease liabilities and amounts payable for goods and services received. These preparers expressed concern that with the revised definition of the financing category, 'interest expenses on lease liabilities and amounts payable for goods and services received' would not be reclassified into operating category. There were also preparers that expressed preference for having the items related to interest expenses on other liabilities (e.g., unwinding of the discount on a decommissioning, restoration or similar liability) classified in operating profit as the underlying was related to an operating activity.

Finally, some financial institutions highlighted that the amount of 'interest expenses on other liabilities' would typically not be significant (when compared to other line items), or may even be immaterial. For this reason, participants believed that the IASB should allow financial institutions to present 'interest expenses on other liabilities' in a line item and/or within the operating category, based on the materiality of the amounts.

Recommendations

In its comment letter to the IASB 2019 ED, EFRAG welcomed the IASB's proposals but highlighted the challenges of making the distinction between the investing and financing category and called for the IASB to provide additional guidance to help implementation.

After considering the feedback received from roundtables, EFRAG considers that the IASB could still improve the definition of the financing category by providing additional guidance to better explain the wording used by the IASB in its definition and provide an indication on how the definition would apply to some transactions. For example, the classification of income and expenses from subsequent changes in the carrying amount of the liability component (when measured in accordance with IFRS 9 at fair value through profit or loss) of a written put options on non-controlling interest (particularly when considering the presentation of income and expenses that arise from contingent consideration in a business combination) and to what extent (all) income and expenses from liabilities that arise from transactions that involve only the raising of finance (such as debt extinguishment, debt restructuring costs, as in paragraph 41 of the ED, and other transaction costs, in particular those that are not part of the effective interest rate used for amortised cost accounting) will be part of the

financing category, especially in light of the IASB's tentative decision not to require an entity to classify incremental expenses in the investing and financing categories.

In its comment letter, EFRAG acknowledged that there were arguments for presenting income and expenses that reflect the effect of the time value of money on liabilities that do not arise from financing activities as operating or financing. EFRAG was also sympathetic to the arguments mentioned in paragraph BC44 of the Basis for Conclusions of the ED, that not all users consider that expenses that reflect the effect of the time value of money to be similar to income or expenses from financing activities. To address this issue, EFRAG understands that the proposal in the ED was made on a conventional basis. The IASB proposed a separate line within the financing category in order to offer a practical approach to identify these components. Considering the above, EFRAG accepted the proposed approach and recommended that the IASB require a disaggregation in the notes to the financial statements on the main components of the line.

Nonetheless, after considering the feedback received from roundtables, EFRAG would welcome the IASB to explain the reasoning behind the IASB's tentative decision (e.g., in the Basis for Conclusions) to present 'interest expenses on other liabilities' in the financing category and include some examples (as in paragraph B37 of the ED).

Income and expenses from cash and cash equivalents

When discussing the IASB's revised classification of income and expenses from cash and cash equivalents in the investing category, in general both users and preparers highlighted that for corporates that use a net-debt concept, the presentation of income and expenses from cash and cash equivalents in the financing category may be more appropriate (as the IASB had proposed in the ED). Some of these participants called for the IASB to reconsider its tentative decision on the classification of income and expenses from cash and cash equivalents in the investing category (and have them classified in the financing category).

When referring to the question on whether there are any entities that provide financing to customers as a main business activity that do not also invest in financial assets as a main business activity that would be impacted by the possible change to the ED (i.e. cash and cash equivalents would be classified in the investing category), preparers from financial institutions noted that cash and cash equivalents are in general an integral part of banks' activities and that investing and financing were closely interlinked. Thus, they should be classified in the operating category (as in paragraph 51 of the ED). A similar concern was expressed by conglomerates (e.g., automotive industry that provide financing to customers) which would be directly affected by a potential withdrawal of paragraph 51 of the ED. Participants mentioned that without the possibility of classifying income and expenses from cash and cash equivalents in the operating category, they would use MPMs to mitigate the issue.

Therefore, there was support for keeping the accounting option under paragraph 51 of the ED for income and expenses that arise from cash and cash equivalents to ensure that such income and expenses are classified in the operating category, including when investing is not a main business activity (or it is difficult or did not make sense to assess whether investing is a main business activity for banks).

Recommendations

In its comment letter to the IASB 2019 ED, EFRAG considered that there are arguments to support a different classification of income and expenses from cash and cash equivalents. However, EFRAG concurred with the IASB's proposal in the ED as the proposed classification in the financing category provided a reasonable compromise. After considering the feedback received from the roundtables, EFRAG continues to believe that the classification in the financing category provides a reasonable compromise, particularly for corporates that use a net-debt concept.

In its comment letter, EFRAG also questioned the IASB's proposal to provide a 'free' accounting policy choice in paragraph 51(b) of the ED to non-financial institutions (e.g., manufacturer providing financing to customers). In accordance with paragraph 51 of the ED, such types of entities would not be required to present income and expenses from financing activities in a financing category, although, in this case, such information would provide relevant information to users of financial statements. Considering this, EFRAG continues to suggest that the IASB restrict and introduce discipline on the use of paragraph 51(b) of the ED and does not allow a free option for the entities described above.

As also mentioned in the comment letter, EFRAG considers that paragraph 51(b) of the ED is mainly useful, as mentioned in paragraph BC66 of the ED, for banks that typically provide financing to customers as part of their main business activities, including reclassification for cash and cash equivalents. Such reclassification would be useful even if the IASB retains its tentative decision to classify income and expenses from cash and cash equivalents in the investing category (as a default category).

Regarding the presentation of income and expenses from cash and cash equivalents for non-financial institutions (particularly conglomerates), EFRAG still considers that paragraph 51(a) of the ED should apply for both income and expenses from financing activities and from cash and cash equivalents that relate to the provision of financing to customers. Such reclassification would be useful even if the IASB were to retain its tentative decision to classify income and expenses from cash and cash equivalents in the investing category (as a default category).

Hybrid contracts

When discussing the classification of hybrid contracts, preparers (particularly from the banking industry) considered that the IASB's tentative decisions were unclear and asked for more application guidance on the meaning of the IASB's tentative decisions, particularly on the meaning of '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 always be presented outside of the operating category and thus the accounting policy choice in paragraph 51 of the ED would not apply. When referring to specific instruments, these preparers were concerned that hybrid contracts measured at fair value in its entirety were now being captured by 'specified income and expenses from other liabilities' and could not be reclassified into operating profit. There were also doubts on the classification of separated host liabilities.

Recommendations

EFRAG welcomes the IASB's tentative decision to develop application guidance for hybrid contracts. Nonetheless, EFRAG suggests that the IASB further clarify its guidance, including:

- providing an explanation of the rationale behind the IASB's tentative decision on hybrid contracts that could help stakeholders better apply the guidance in practice;
- illustrative examples and/or flowchart to help implementation and help preparers understand the mechanics of the IASB's tentative decisions;
- better explain what drives the classification for financial instruments where the embedded derivative is not separated from the host liability;
- better explain the classification of hybrids that arise from transactions that do not involve only the raising of finance (e.g., payables to suppliers with payment linked to commodity price), including the role of the embedded derivative on the classification and when instruments should be classified in the operating or financing categories (in the latter case, when reclassification to operating category would be allowed in accordance with paragraph 51 of ED);
- consider the classification of hybrid instruments that involve the issuance of financial instruments on own equity (e.g., convertible bonds); and
- consider the classification of hybrid contracts in the operating category for financial institutions, including those that are not separated and measured at fair value.

Classification of derivatives and hedging instruments

Preparers from corporate companies expressed concerns that the default category for the classification of derivatives and hedging instruments was now the operating category (e.g., in cases where classifying fair value gains or losses in the category of the statement of profit or loss affected by the risk the entity manages involves grossing up of fair value gains or losses, when it would involve undue cost or effort or when derivatives are not used for risk management).

These preparers highlighted that having the operating category as the default category would not provide useful information and would bring significant volatility into the operating category. Therefore, having the operating category as a default category for the classification of gains and losses on derivatives and hedging instruments was not a solution for them. To mitigate this volatility, preparers would have to use MPMs related to the operating profit. Instead, some preparers expressed preference that the default category is not the operating category.

Finally, some participants questioned how the IASB's proposals applied to hedging strategies that did not involve hedging instruments (e.g., natural hedges) and whether the classification of income and expenses from such hedging strategies would be the same as those using derivatives.

Recommendations

EFRAG is concerned about the effects of presenting gains and losses on derivatives in the operating category under certain conditions for non-financial institutions/corporate companies (e.g., in cases where classifying fair value gains or losses in the category of the statement of profit or loss affected by the risk the entity manages involves grossing up of fair value gains or losses). For such entities, the IASB should consider alternative solutions, including revisiting the default presentation in the operating category, to mitigate the issue of bringing the effect of the entire instrument into the operating category, which could bring significant volatility to this category. For example, require the classification in the investing category of income and expenses from financial instruments that are not used for risk management.

EFRAG also considers that it would be useful to clarify the IASB's proposals related to situations that would involve grossing up gains and losses, including when and how it should be applied (e.g., gains or losses from a single hedging instrument and/or a portfolio of hedging instruments).

Classification of income and expenses from subsidiaries, associates and joint-ventures

When discussing the IASB's revised proposals on the classification of income and expenses, participants in roundtables expressed mixed views on the presentation of income and expenses from associates and joint ventures.

- many agreed with the IASB's revised proposals, particularly users of financial statements;
- some welcomed the IASB's decision to withdraw the distinction between integral and non-integral (including users), while others were supportive of the IASB's initial distinction (including academics);
- some, including financial institutions and academics, considered that investments that are integral or contribute to the entity's main business activities should be in the operating category;
- some preparers suggested to define a default category but to allow an accounting policy choice to designate an investment as integral or non-integral to the entity's main business activities to better reflect the substance of the investment in the financial statements;
- users expressed a preference for having all associates and joint ventures presented outside of operating profit, including those measured at cost and fair value, so that operating profit represents the group's operating profit and related margins are not distorted (as the share of profit or loss is a net result, after financing and income tax);
- a few participants suggested that the classification of associates and joint ventures should be based on the general model (in accordance with definitions provided by the IASB on operating, investing and financing category); and
- a few participants questioned the relevance of the IASB proposals when applied to separate financial statements, including the presentation of subsidiaries.

Nonetheless, from the feedback received from participants, it is clear that for corporates and financial institutions, it is problematic to always recognise income and expenses from equity-accounted associates and joint ventures outside the operating category.

In addition, participants raised many questions on the use of additional subtotals related to associates and joint ventures and the interaction of such potential subtotals with the IASB's proposals on specified subtotals and MPMs.

Recommendations

In its comment letter to the IASB's 2019 ED, EFRAG recommended that the IASB should require the presentation of the results of all associates and joint ventures below the subtotal 'operating profit or loss'. In addition, EFRAG suggested that the IASB require the split between 'integral' and 'non-integral' in the notes to the financial statements (but not as a presentation requirement on the face of the statement of profit or loss). This has the objective of providing more information and transparency on the nature of the investments and more information on whether such investments contribute to the value chain or are an extension of the main business activities of the entity. EFRAG also noted that, in accordance with paragraph 66 of the ED, entities can always make the split on the face of the statement of profit or loss if such split is considered useful (through additional line items or subtotals outside operating profit) and provides relevant information on the entities' activities.

Furthermore, EFRAG notes that the IASB has recently tentatively decided to add 'operating profit or loss and income and expenses from investments accounted for using the equity method' to the list of specified subtotals in paragraph 104 of the ED, which would allow preparers to separately present income and expenses from investments accounted for using the equity method together with a subtotal that would reflect the operating profit together with income and expenses from equity-accounted investments (without having to provide reconciliations under the MPM requirements).

However, EFRAG:

- considers that it would be useful if the IASB better explained the use of additional subtotals related to associates and joint ventures (e.g., possibility of using additional line items or subtotals outside operating profit that reflect management views of integral and non-integral associates and joint ventures) and the interaction of such potential line items and subtotals (which are likely to increase with the IASB's proposals) with the IASB's proposals on specified subtotals and MPMs, including when the reconciliation disclosure requirements would apply; and
- questions the appropriateness of making a distinction in terms of presentation based on whether the equity method is used or not in the separate financial statements as the use of the equity method is an option. Considering this, EFRAG considers that the IASB's tentative decisions may influence the entity's decision when opting one of the three methods available to account for investments in the separate financial statements.

Classification of income and expenses from subsidiaries, associates and joint-ventures: Insurance

When providing views on the presentation of associate and joint ventures, preparers and representatives of the insurance industry highlighted that the issue of associates and joint ventures is very important and material for insurance companies and highlighted the importance of presenting investments in associates and joint ventures that are linked to insurance contracts (e.g., that are backing up liabilities) or linked to own funds within operating profit (in net financial result). Else, there would be a mismatch as the operating category would only include expenses related to insurance contract liabilities and no associated investment results from the assets held to service those liabilities.

Participants in the roundtables detailed that insurance companies typically have two types of associates and joint ventures: (i) associates and joint ventures that are investments at the service of the insurance liabilities (including those that are only partially covering insurance liabilities) and (ii) 'other investments that are part of the value chain' (e.g., investments in other insurance companies). In their view, the IASB's discussion on whether investments are integral or whether they contribute to the entity's main business activities is only related to 'other investments that are part of the value chain' and not to investments in associates and joint ventures that are linked to insurance contracts, as these have a different nature. The investments in associates and joint ventures that are linked to insurance contracts were considered as part of the entity's main business activity as investing is a main business activity and these investments are operated to back insurance liabilities. If the results from those assets held to service the liabilities are recognised outside the operating profit, this would create a mismatch and would not provide useful information to users of financial statements.

Some participants also noted that the election to use fair value in IAS 28 *Investments in Associates and Joint Ventures* would not entirely resolve the presentation issue as measuring all associates and joint ventures at fair value would increase earnings volatility and the scope of the election is limited to specific situations (i.e. when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds type of associates and joint ventures). Similarly, it was noted that using an MPM reflecting operating profit or loss and income and expenses from investments accounted for using the equity method that are related to insurance contract liabilities would not mitigate the concerns as the operating category is essential to the understanding of insurers' performance and would be incomplete. There was also a different understanding about the scope of paragraph 18 of IAS 28 which allows specific entities to measure associates and joint ventures at fair value.

These stakeholders suggested a number of different alternatives which would permit the classification of associates and joint ventures in the operating category (at least some of them). Please see the detailed analysis for more information.

Users that are following the insurance companies expressed some sympathy for a presentation within the operating category. They also expressed the importance of a clear distinction between associates and joint ventures that are investments at the service of the insurance liabilities and other investments (e.g., investments in other insurance companies) and having an understanding of the result that would reflect the activities of the insurance business.

Recommendations

EFRAG retains its suggestion included in paragraph 15(a) of its comment letter on the IASB 2019 ED that for entities that invest in the course of their main business activities, investments in associates and joint ventures that are part of an entity's investment strategy and where substantially all risks and rewards impact parties other than shareholders (e.g., investments that fund insurance liabilities included in the operating category) should be presented in the operating category.

More specifically, after considering the feedback received from its stakeholders, EFRAG retains its suggestion that the IASB should consider requiring the presentation of investments in associates and joint ventures that are linked to insurance contracts (e.g., that are backing up insurance liabilities) in the operating category. Such presentation requirement could be within a separate line item and implemented through a consequential amendment to IFRS 17.

Analysis of operating expenses – presentation

When discussing the IASB's tentative decision to withdraw the proposed prohibition on a mixed presentation of operating expenses, many preparers welcomed the IASB's decision as in some instances the mixed method provided more relevant information. However, users and some preparers were not in favour of an unrestricted mixed presentation as it could lead to cherry-picking of by nature items presented on the face of the statement of profit or loss and impair comparability.

Presentation by function

In general, users and academics welcomed the IASB's tentative decisions to provide additional guidance on the use of by function expense method, as it would help them better understand what type of expenses are within each function line item and was likely to improve consistency over time.

However, some preparers indicated a number of application concerns. For example, concerns that some line items (such as legal claims, goodwill impairments, royalties, non-income related taxes and restructuring expenses) had characteristics of both nature and function elements and were difficult to allocate. It was noted that guidance on the presentation of these specific line items would be useful (e.g., whether they would be considered as line items by nature or by function). There were also concerns that a rigid definition of the functions could lead to less meaningful allocations and questions on how the disaggregation requirements will interact with the subtotal 'other expenses'.

Analysis of operating expenses – disclosures by nature when presenting by function of expense method

When discussing the IASB's proposed disclosures by nature when presenting by function of expense method, users and preparers often expressed different views, although they acknowledged that the IASB's tentative decision was a compromise.

Users (and academics) highlighted that disclosures of operating expenses by nature (e.g., amortisation, depreciation, impairments, employee benefits and energy costs) when presenting by function were fundamental to carry out analysis, forecasts and cross-sector comparisons. Some users preferred the IASB's approach included in the ED (e.g., total operating expenses by nature), although they also welcomed disaggregation of line items presented by function such as 'cost of sales'.

When discussing the IASB's proposals with preparers, EFRAG received mixed views. Some preparers preferred the IASB's approach included in the ED (e.g., total operating expenses by nature), while others welcomed the IASB's revised disclosures. Their preference often depended on the IT systems that they currently have and the level of difficulty to collect data for consolidation purposes.

Nonetheless, when discussing specifically the implementation of the IASB's revised approach for disclosures, a number of preparers highlighted that it would be costly to implement (often not recognising any benefits), particularly when there are recent business acquisitions and identified a number of challenges in applying the revised disclosures (e.g., for the cost of sales, it is not possible to determine the exact amount of specific costs by nature that were included in the carrying amount of sold inventory. These amounts are only recognised as an expense when the sale would occur, which could take place only in the following years; thus one part could be recognised as an expense in the year and other parts in the following years). These participants considered that the IASB should consider a practical expedient that would permit entities to provide the total costs of the year (as a proxy) rather than the expenses recognised in the statement of profit or loss, when determining such expenses involves undue cost and effort.

Additionally, there were calls from participants for having impairments in the list of disclosures and some practical expedients when it is difficult to provide expense amounts rather than cost amounts.

Finally, insurance companies questioned how the proposed disclosure requirements would interact with the presentation requirements under IFRS 17 (where most of operating expenses would be allocated to the 'insurance service expenses' and presented within the 'insurance service margin') as it was significantly different from corporate entities presenting by function.

Recommendations

In its comment letter to the IASB 2019 ED, EFRAG recommended that the IASB further investigated the costs and benefits of its requirement to disclose on a by-nature basis in the notes when presenting by-function on the face of the financial statements, and, if appropriate, consider focusing on which information is most needed by users.

In this regard, EFRAG continues to acknowledge the benefits for users of having information by nature but also notes the costs for preparers. EFRAG's previous and current outreach has shown that both users and preparers would likely accept a more balanced outcome (e.g., providing a partial presentation by nature of some operating expenses).

Thus, EFRAG considers that the IASB proposal to require an entity to disclose the amounts of depreciation, amortisation and employee benefits included in each line item in the statement of profit or loss is a compromise with the objective of achieving a better balance of the related costs and benefits (although it may be difficult and result in significant costs for some preparers). However, EFRAG would suggest adding impairments to the list of minimum items to be disclosed. The analysis of the costs and benefits of the proposed disclosures should be carefully explained in the IASB's effects analysis.

Finally, EFRAG is not in favour of having a wider approach (an approach considered by the IASB in the outreach events) where an entity would have to disclose for all operating expenses disclosed in the notes (including those required by other IFRS Accounting Standards) the amounts included in

each line item by function in the statement of profit or loss. This is because it would be very difficult and costly for many entities to allocate additional items by nature to each line item by function and could discourage entities from providing disclosures by nature on other items when not required by IFRS Accounting Standards (e.g., discourage the disclosure of energy costs as this additional item by nature would have to be disaggregated for each line item by function in the statement of profit or loss).

Management performance measures

When discussing MPMs more generally, participants raised questions on:

- to what extent additional subtotals (e.g., subtotals of subtotals) would be permitted and whether they would be considered as MPMs or specified subtotals. The question was particularly relevant for banks and conglomerates that will have, in practice, a wide operating category and will want to present subtotals within the operating category;
- how MPMs will interact with performance measures already presented under IFRS 8, such as EBITDA, EBIT and (management) operating profit; and
- how the notion ‘public communications outside financial statements’ will apply to private non-listed companies;
- the fact that for financial institutions, alternative performance measures are mainly related to the statement of financial position, which are out of the scope; and
- whether ratios used in segment reporting would be considered as MPMs.

Rebuttable presumption

Many participants welcomed the new rebuttable presumption on MPMs, however, there were questions on whether an entity will have to disclose when it decides to rebut the presumption that a specific subtotal of income and expenses is an MPM.

However, regulators and highly regulated entities, such as banks and insurance companies, raised questions on the effective applicability of the rebuttable presumption for all the significant measures communicated for regulatory purposes which could include measures that are difficult to reconcile with IFRS measures and might lead to additional disclosures related to rebutting the IASB’s presumption. There was also the concern that this could lead to a wider scope for MPMs than the IASB intended.

Simplified approach to calculating the tax effect

EFRAG received mixed views on the simplified approach:

- some welcomed the proposed simplified solution for the income tax effects for each reconciling item as it would remove large part of operational complexity – however, it was noted that the method can lead to oversimplifications and the disclosed amounts can be very different to the actual effects;
- others were not convinced that the revised calculation of tax effect for reconciling items actually resulted in a simplification for reporting entities, particularly for international groups.

If the IASB decides to proceed, participants requested additional guidance for implementation (e.g., illustrative examples as in the IASB's agenda papers). In addition, it was noted that such information would be difficult to provide particularly when required for interim reporting purposes.

Disclosures on each reconciling item

In general, users considered that disclosures on each reconciling item were useful. However, preparers highlighted that the combination of calculating the 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). These preparers questioned whether reconciliation could be done at subtotal level rather than at each individual reconciling item.

Some participants highlighted that users prefer linking the reconciliations to the operating segments as per IFRS 8 rather than to each reconciling line item in the statement of profit or loss. Thus, there were questions on the need to disclose, for each reconciling item, amount(s) related to each line item in the statement(s) of financial performance.

Recommendations

Scope of MPMs

Considering the questions raised by participants on what an MPM is and the use of additional line items and subtotals on the face of the statement of profit or loss, EFRAG suggests that the IASB provide additional implementation guidance on to what extent additional subtotals (e.g., subtotals of subtotals and subtotals merely reflecting reclassification of line items) would be permitted and whether they would be considered as MPMs or specified subtotals. In addition, as mentioned in EFRAG's comment letter to the IASB 2019 ED, the IASB should consider improvements to the interaction between the proposal in the ED and IFRS 8.

Rebuttable presumption

In its comment letter EFRAG agreed that non-IFRS measures were often used in practice and additional guidance could bring more transparency and consistency in their use. EFRAG therefore welcomed the IASB's efforts to provide guidance on MPMs. In addition, EFRAG invited the IASB to consider excluding from the scope the measures that are required by the regulators.

Considering this, EFRAG expresses some concerns on establishing a rebuttable presumption for highly regulated entities that a subtotal of income and expenses included in public communications outside financial statements represents management's view of the entity's financial performance and to provide application guidance on how to assess whether the entity has reasonable and supportable information to support the rebuttal, particularly when it involves ratios required by regulators. This could increase complexity and may unintendedly enlarge the scope of MPMs.

Disclosing tax and NCI effect in reconciliation

In its comment letter, EFRAG raised concerns related to balancing costs and benefits of this requirement. Consequently, EFRAG suggested that the IASB reconsider this requirement, such as to limit it to income tax and NCI effects only if an entity presents adjusted Earnings Per Share (EPS ratio based on the MPM). EFRAG also questioned whether the resulting information would actually be reliable without an entity incurring incremental operational efforts to collect the required information and to prepare reliable financial information, which would have to be audited.

As also highlighted in EFRAG's comment letter to the IASB 2019 ED, EFRAG has some concerns about requiring a reconciliation of the MPMs to the most directly comparable subtotal or total specified in IFRS Accounting Standards in the interim financial statements as such reconciliations, including the tax effect and NCI effect, can be costly, particularly when preparing interim financial statements at consolidated level (e.g., tax includes income tax of different subsidiaries and not transactions).

Nonetheless, EFRAG considers that the IASB revised proposal to have a simplified approach to calculating the tax effect has the benefit of mitigating some of the concerns related to the cost of the IASB's proposals (even if, as mentioned above, EFRAG questions whether the resulting information would be reliable without an entity incurring incremental operational efforts to collect the required information and to prepare reliable financial information, which would have to be audited).

Disclosing, for each reconciling item, the amount(s) related to each line item(s) in the statement(s) of financial performance

Finally, EFRAG is concerned that the IASB tentative decision to require an entity to disclose, for each reconciling item, the amount(s) related to each line item(s) in the statement(s) of financial performance may significantly increase the costs for preparers. The ED itself was less prescriptive and the illustrative example provided by the IASB was just a way of providing the information (not a specific format required by the main standard). EFRAG considers that entities should be able to opt for providing the information as suggested in the illustrative examples but not required to.

Unusual income and expenses

Many participants to the roundtable discussions, particularly preparers, welcomed the IASB tentative decision to withdraw the requirement to define and disclose information on unusual income and expenses as there is no consensus on what it is.

By contrast, users, regulators, academics and some preparers disagreed with the IASB tentative decision to withdraw the definition and disclosure requirements on unusual items. They highlighted the importance of having more transparency and discipline on the use of 'unusual items' or 'non-recurring items' in the financial statements. Any high-level guidance or rules basis approach would be useful to mitigate diversity in practice.

Recommendations

In its comment letter, EFRAG welcomed the IASB's efforts to define unusual income and expenses and to require entities to disclose such items in the notes, as such disclosure provides useful information to users of financial statements. However, having considered the IASB's re-deliberations in this respect, EFRAG acknowledges the difficulties of developing a definition of unusual items

(which were already identified by EFRAG in the field-tests of the 2019 ED) and is of the view that timely completion of the Primary Financial Statements project is a priority.

The application of the general requirement to disaggregate amounts whenever information about the disaggregated amounts is material, or as a voluntary disclosure, and reconciliations related to MPMs could mitigate, to a certain extent, the lack of information being provided under the definition of unusual income and expenses. Nonetheless, it could be useful to have a definition of unusual items (workable definition that could be improved in the future with practice) or at least information on how an entity defines its unusual items (when used across its different categories). It would also be useful to provide clarity on the possibility of showing separately, in the statement of profit or loss, items that an entity views as non-recurring or unusual items (e.g., a subtotal within the IASB's required subtotals), particularly when considering that the notion of extraordinary items is not referred to in the ED.

Other comments

A few participants cautioned the IASB deciding on the effective date of the future IFRS Accounting Standard given the practicability and timescales of implementation of IFRS 17 and Sustainability Standards in Europe. In addition, some preparers that are currently listed in the U.S. and/or present operating expenses by function noted that they would need a longer implementation process.

Finally, a few participants noted that considering the level of comments in outreaches, there was a question whether the IASB should re-expose.

Recommendations

In its comment letter, EFRAG recommended that consideration is given to the practicalities and timescales of implementation of IFRS 17 together with any new standards or amendments arising from the ED (consequential amendments). EFRAG reinforces its recommendation from its comment letter for the IASB to provide sufficient time for entities to implement the IASB's revised proposals (e.g., disclosures by nature when presenting by function, particularly when involving business acquisitions).

In its comment letter, EFRAG highlighted that this project responds to a strong demand from users of financial statements and respondents to the IASB 2015 Agenda Consultation to undertake a project on primary financial statements. EFRAG continues to consider that this project is fundamental to users of financial statements and the IASB should continue to engage with its constituents whenever necessary to understand the issues and the implications of the revised proposals.

Appendix 1: Details of the feedback received

This section includes a more detailed analysis of the feedback received on the main topics on the IASB's project Primary Financial Statements.

Subtotals and categories in the statement of profit or loss – Operating category

The IASB tentatively confirmed to require that entities would be required to present an operating profit subtotal in the statement of profit or loss and not to develop a direct definition of operating profit.

The IASB also tentatively confirmed that the following types of income and expenses shall not be classified in the operating category: investing, financing, income tax, and discontinued operations.

Finally, the IASB tentatively confirmed that the operating category comprises all income and expenses arising from an entity's operations, including volatile and unusual income and expenses arising from an entity's operations; and includes, but is not limited to, income and expenses from an entity's main business activities.

The IASB did not include specific questions on the operating category for the outreach activities.

Terminology used

Some participants, including preparers and regulators, have expressed concerns that the statement of financial performance and the statement of cash flows will have categories with similar labelling (operating, investing, and financing) but with different definitions. This may raise confusion both for users and preparers when preparing their financial statements as different definitions were being used for categories that were considered similar. Nonetheless, a few participants acknowledged that a full cohesiveness would be difficult to achieve.

Operating category

Although the IASB did not include specific questions on the operating category, participants in the roundtable discussions have highlighted the following issues:

- preparers and users raised questions on how the IASB's proposals would apply to specific transactions such as: disposal of subsidiaries, fair value changes of NCI puts, classification of foreign currency exchange differences on intercompany transactions, discounting of assets, including pension assets (overfunded plans) and other transactions not directly related to the entity's main business activities (i.e. ancillary activities or unusual items);
- concerns on having an operating category defined as a residual category, which would include not only income and expenses that arise from the entity's main business activity but also ancillary activities and unusual items (including those mentioned in the line above). This issue was particularly relevant for companies that currently use the operating profit or loss subtotal as a key measure for management to explain their business;
- companies that currently use the operating profit or loss subtotal as a key measure for management to explain their business expressed concerns that the IASB was taking ownership of the labelling 'operating profit' and that entities would have to make use of management performance measures to explain their business (e.g., excluding unusual items and ancillary activities);

- preparers questioned the presentation of operating profit or loss for conglomerates and international groups, particularly when considering that operating profit is a residual category. As a result, the operating profit category for the group would be wide and reflect many ancillary activities; and
- questions on how the IASB's proposals would interact with the IASB's presentation proposals in the Exposure Draft *Accounting for Regulatory Assets and Regulatory Liabilities* (e.g., revenue and total allowed compensation).

A few participants also commented on the IASB revised guidance on the notion 'main business activities', particularly on how to assess whether financing or investing is a main business activity. Participants noted that the IASB had tentatively decided that the '*entity will need to use its judgement in assessing whether it invests in the course of its main business activities or provides financing to customers as a main business activity. The assessment should be based on observable evidence to the extent available*' and then provides examples of evidence. Participants questioned whether those pieces of evidence were minimal criteria to meet (for instance, shall an entity have an IFRS 8 operating segment for the financing activities to conclude that financing is a main business activity) or simply indicators.

In addition, one participant raised concerns that the reporting entity level would have problems in deciding what is operating profit, especially in coordination with the requirements of IFRS 8. The steering within the group should drive the categorisation on subsidiary level. Otherwise, large companies with many businesses would deal with complexities due to different classification of income and expenses at the different group levels. The participant believed that further guidance on the notion was necessary on how entities would define their main business activities, when a group has multiple business activities.

Aspects of the proposals for entities with specified main business activities

When discussing the IASB's proposals that would affect entities with specified main business activities, participants provided the following feedback:

- preparers from the banking industry, questioned the proposed operating category, which was considered to be very wide and would include almost all income and expenses. Particularly, when considering that associates and joint ventures accounted for under the equity method and 'specified income and expenses on other liabilities' (particularly interest expense on lease liabilities) are presented outside of the operating category while they were considered part of the entity's operations or/and are immaterial;
- preparers from the banking industry highlighted that they currently use the operating profit subtotal as a key measure for management to explain its business. These preparers expressed concerns that the IASB was taking ownership of the labelling 'operating profit' and that entities would have to make more use of management performance measures to explain their business.

Subtotals and categories in the statement of profit or loss – Financing Category

The IASB tentatively decided in relation to the classification in categories of statement of profit or loss to require an entity to classify in the financing category:

- *for liabilities that arise from transactions that involve only the raising of finance—all income and expenses;*
- *from other liabilities—specified income and expenses.*

The IASB also tentatively decided to describe transactions that involve only the raising of finance as transactions that involve:

- *the receipt by the entity of cash, a reduction in a financial liability or an entity's own equity;*
- *the return by the entity of cash or an entity's own equity.*

For liabilities that arise from transactions that do not involve only the raising of finance, except some such liabilities specified by the IASB, the IASB tentatively decided to require an entity to classify in the financing category of the statement of profit or loss interest expense and the effect of changes in interest rates, when such amounts are identified applying the requirements of IFRS Accounting Standards.

Questions for participants:

- *Is the revised proposal for classifying income and expenses within the financing category clearer and easier to apply than the proposal in the ED?*
- *Are you aware of any issues that may arise from the expected change in outcome from the ED for lease liabilities and amounts payable for goods and services received?*
- *Does the revised proposal for classifying income and expenses in the financing category result in a change from the proposals in the ED for the classification of any income and expenses from liabilities other than lease liabilities and amounts payable for goods and services received?*
- *Are you aware of any entities that provide financing to customers as a main business activity that do not also invest in financial assets as a main business activity that would be impacted by the possible change to the ED?*

Revised definition of the financing category

Many preparers and users that participated in the roundtables welcomed the IASB's proposal to classify 'income and expenses from liabilities that arise from transactions that involve only the raising of finance' in the financing category as this will help users understand the performance of an entity regardless of how it is financed and understand what is included in the cost of debt.

Nonetheless, some preparers considered that the wording used by the IASB to define the financing category (as described above) was difficult to understand and implement. In addition, participants noted that it was difficult to relate the revised definition to the definition of financing activities in IAS 7 *Statement of Cash Flows*. These preparers called for additional implementation guidance on the revised definition of financing category to avoid diversity in practice. For example, some called for the IASB to clarify what should be reflected in the line item "Net interest expense/income on a net defined benefit liability/asset" and treatment of interest related to extended credit/debit terms for customers and suppliers (e.g., financing component under IFRS 15 *Revenue from Contracts with Customers* and

service concession arrangements subject to the financial asset model in IFRIC 12 *Service Concession Arrangements*).

In addition, some preparers questioned where incremental expenses, such as transaction costs and costs of borrowing (e.g., fees that are excluded from the effective interest rate of a liability subsequently measured at amortised cost), would be classified, particularly when considering paragraph B36(b) of the 2019 ED which would require ‘debt extinguishment and debt restructuring expenses’ to be classified in the financing category. These participants considered that such incremental costs should be presented within the financing category and not in the operating category (because of being a residual category). As a result, participants called for additional guidance in this area.

By contrast, a few participants, including regulators, welcomed the revised definition of the financing category as it would be clearer and easier to apply on the classification of complex financial instruments such as perpetual debt.

Specified income and expenses on other liabilities, including lease liabilities and amounts payable for goods and services received

Many preparers, particularly from financial institutions, expressed concerns that the IASB’s revised proposal for classifying income and expenses in the financing category would result in a change from the proposals in the ED on the classification of lease liabilities and amounts payable for goods and services received. In particular, these preparers expressed concern that with the revised definition ‘interest expenses on lease liabilities and amounts payable for goods and services received’ would not be reclassified into the operating category.

This is because most of their leases were for buildings, branch offices, employees’ company cars, and other office facilities. The interest expenses of these contracts were naturally connected to the operating activities (the related rights of use are operational assets) and presenting them outside the operating profit would represent a change to current practice.

In addition, some participants, including financial institutions, considered that interest expenses on employees’ benefits and unwinding of the provisions for loan commitments and financial guarantees under IFRS 9, which were also considered part of ‘specified income and expenses from other liabilities’, should be presented within the operating category. Although the presentation of these amounts within the financing category would improve comparability, it would decrease the relevance of the presentation of these amounts for financial institutions and alter the operating profit.

Finally, some financial institutions also highlighted that the amount of interest expenses on other liabilities would typically not be significant or may even be immaterial. Presenting such amounts as single line items on the face of the financial statements could incur significant costs for preparers, while the benefits of users are limited. For this reason, these participants believed that the IASB should allow financial institutions to present the interest expenses on other liabilities preferably as a line item with no breakdown and/or within the operating category, based on the materiality of the amounts.

Revised classification of income and expenses from cash and cash equivalents

When discussing the IASB’s revised classification of income and expenses from cash and cash equivalents in the investing category (rather than in the financing category), both users and preparers highlighted that for corporates that use a net-debt concept, the presentation of income and expenses from cash and cash equivalents in the financing category may be more appropriate (as the IASB had

proposed in the ED). In addition, preparers highlighted that if the IASB were to proceed with its proposal to classify income and expenses from cash and cash equivalents in the investing category, they might need to use MPMs to mitigate the concerns on the effects of cash and cash equivalents. One user explained that usually, companies do not hold cash to invest; instead, they use it as part of working capital and financing (particularly financing). Therefore, members would prefer the presentation of income and expenses from cash and cash equivalents in the financing category (if a split between different categories is not possible).

When referring to the question on whether there are any entities that provide financing to customers as a main business activity that do not also invest in financial assets as a main business activity that would be affected by the possible change to the ED (e.g., cash and cash equivalents would be classified in the investing category), preparers from financial institutions and corporates that are conglomerates noted that:

- cash and cash equivalents are in general an integral part of banks' operating activities;
- investing in financial assets is closely related to financing to customers and it would be very difficult and costly to separate and segregate these activities into different categories or main business activities; and
- making the classification of 'cash and cash equivalents' dependent on whether an 'entity invests in financial assets as a main business activity' puts pressure on the definition of a main business activity.

Therefore, there was support for keeping the accounting option under paragraph 51 of the ED for income and expenses that arise from cash and cash equivalents to ensure that such income and expenses are classified in operating category. A similar concern was expressed by corporates that are conglomerates (e.g., automotive industry), which would be directly affected by a potential withdrawal of the option. They requested that the IASB should permit the classification of income and expenses that arise from cash and cash equivalents related to the banking business (i.e., financing to customers) in the operating category.

Nonetheless, a few participants, including regulators, were concerned about keeping the option in paragraph 51 of the ED as it would impair comparability.

Subtotals and categories in the statement of profit or loss – Classification of hybrid contracts with host liabilities and embedded derivatives

To help preparers to make the allocation of income and expense related to the 'liability component', the 'embedded derivative component' and the 'entire instrument if not separated', the IASB decided to provide new guidance on hybrid contracts. More specifically to require an entity, in relation to hybrid contracts with host liabilities and embedded derivatives, to classify:

- *income and expenses relating to separated host liabilities in the same way as income and expenses on other liabilities;*
- *income and expenses relating to separated embedded derivatives in the same way as income and expenses on stand-alone derivatives; and*

- *income and expenses related to contracts that are not separated in the same way as income and expenses on other liabilities.*

In addition, the IASB tentatively decided to develop disclosure requirements for the situation in which an entity designates an entire hybrid contract at fair value through profit or loss and as a result does not separate from the host financial liability an embedded derivative that is otherwise required to be separated by IFRS 9. The objective of these disclosure requirements would be to give users of financial statements information about when the use of the fair value option changes the classification of income and expenses.

Questions for participants:

- *Are the IASB's tentative decisions on hybrid contracts with host liabilities and embedded derivatives clear and easy to apply? Are these contracts prevalent?*
- *Do participants identify any potential implementation and application concerns?*
- *Do you think that the proposed requirement to classify 'income and expenses related to contracts that are not separated in the same way as income and expenses on other liabilities' (e.g., hybrids measured entirely at FVPL) will result in useful information? Any potential implementation and application concerns?*

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).

Generally, financial institutions use this type of hybrid contracts as a source of funding and the income and expenses arising from hybrid contracts (with the host liability and the embedded derivative) should be presented within the operating category, consistently with the income and expenses deriving from deposits received and plain vanilla bonds issued. When referring to specific instruments, these preparers were concerned that hybrid contracts measured at fair value in its entirety were now being captured by 'specified income and expenses from other liabilities' and could not be reclassified into operating profit. There were also doubts on the classification of separated host liabilities.

Therefore, participants in general requested the IASB to clarify its tentative decision and provide additional implementation guidance on the different types of hybrid contracts that exist.

Subtotals and categories in the statement of profit or loss – Classification of derivatives and hedging instruments

The IASB tentatively decided that in cases where classifying fair value gains or losses in the category of the statement of profit or loss affected by the risk the entity manages involves grossing up of fair value gains or losses (derivatives designated as hedging instruments) or undue cost or effort (derivatives not designated as hedging instruments), an entity would classify all fair value gains or losses in the operating category.

The IASB also tentatively decided to require an entity to classify fair value gains or losses on derivatives not used for risk management in the operating category, unless a derivative relates to financing activities and is not used in the course of the entity's main business activities. In such cases, an entity classifies all fair value gains or losses on the derivative in the financing category.

Questions for participants:

- *Do participants identify any potential implementation and application concerns with the classification of fair value gains or losses on derivatives and hedging instruments (e.g., application to individual vs portfolio level hedge ineffectiveness undue cost or effort)?*

Some preparers observed that managing derivatives and foreign currency exchanges was usually handled by the treasury department of the company (which managed the foreign currency exchange and hedging centrally) and it was questionable whether the benefit of allocating the related income and expenses to different categories would outweigh the costs as these items were quite judgemental, and it would require the use of specialists, IT changes and training of specialists.

In addition, preparers from corporate companies expressed concerns that the default category for the classification of derivatives and hedging instruments was the operating profit (e.g., in cases where classifying fair value gains or losses in the category of the statement of profit or loss affected by the risk the entity manages involves grossing up of fair value gains or losses, undue cost or effort or derivatives not used for risk management). These preparers highlighted that it did not make sense to have the income and expenses from investments in shares presented in the investing category but income and expenses from derivatives on the same underlying shares being presented in the operating category (e.g., equity swaps). In addition, these preparers highlighted that having the operating category as the default category would bring significant volatility into the operating category. To mitigate this volatility, these preparers stated that they would use MPMs on the operating profit subtotals.

While not raising practical concerns, a few preparers noted that the guiding principle identified by IASB for the presentation of income and expenses of derivatives (e.g., used for risk management) is not the most appropriate for financial institutions since banks manage risks as business. There were also questions on when an entity can trigger the undue cost or effort relief (for derivatives and foreign currency exchange differences).

One preparer asked for clarification on the meaning of the term “gross up gains and losses” used in the IASB’s tentative decision.

Subtotals and categories in the statement of profit or loss – Classification of income and expenses from subsidiaries, associates and joint-ventures

The IASB tentatively confirmed to require an entity to classify income and expenses from equity-accounted associates and joint ventures outside the operating category within the investing category.

For separate financial statements, the IASB tentatively decided to require income and expenses from investments in subsidiaries not accounted for using the equity method to be classified in the investing category if investing in subsidiaries is not a main business activity; and in the operating category if investing in subsidiaries is a main business activity.

Question for participants:

- *Consolidated financial Statements: Do you think that the proposed requirement to include all equity accounted investments in the investing category will result in useful information for users? If not, are there any equity accounted investments that should be presented within the operating category? Which ones?*
- *Separate financial statements: Do you think that the proposed requirements for the presentation of subsidiaries, associates and joint ventures will result in useful information for users? If not, are there any equity accounted investments that should be presented within the operating category? Which ones?*

When discussing the IASB's revised proposals, participants in roundtables expressed mixed views on the presentation of income and expenses from associates and joint ventures. More specifically:

- many participants, particularly users of financial statements, agreed with the IASB's tentative decision to classify income and expenses from equity-accounted associates and joint ventures outside the operating category within the investing category. Users considered that the presentation of a subtotal of operating profit or loss without this component (i.e., presenting income and expenses from equity-accounted associates and joint ventures outside the operating category) provides useful information (e.g., for valuation of companies) and improves comparability. Similarly, some preparers noted that the income and expenses that arise from the equity method are difficult to budget or plan for, thus it would not be useful to have them within operating profit, particularly when considering that the entity does not control these entities (creating noise in the operating category) and information on such associates and joint ventures was not always easily accessible. A few preparers acknowledged that the IASB's revised proposal would be easy to implement and would not require management judgement;
- some welcomed the IASB's tentative decision to withdraw the distinction between integral and non-integral (including users) as the distinction was too judgemental, while others were supportive of the IASB's initial distinction. These participants argued that management sees some of its investments in associates and joint ventures as integral to their business;
- some participants, including financial institutions, considered that investments that are integral or contribute to main business activities should be in the operating category (e.g., banking cooperation with other businesses and related products such as insurance);
- some preparers suggested to define a default category but to allow an accounting policy choice to designate an investment as integral or non-integral to the entity's main business activities to better reflect the substance of the investment in the financial statement;
- a few participants suggested that the classification of associates and joint ventures should be based on the general model and not through an exception (i.e., they would be classified in the investing category if they would meet its definition. Else they would be classified in the operating category); and
- users have also expressed preference for having all associates and joint ventures presented outside of operating profit, including those measured at cost and fair value. This is to ensure that operating profit represents the group operating profit.

In addition, participants raised many questions on the use of additional subtotals related to associates and joint ventures and the interaction of such potential subtotals with the IASB's proposals on specified subtotals and MPMs, particularly on whether and when companies would have to provide a reconciliation. For example, to what extent the use of subtotals such as 'Operating profit and share of profit or loss of integral associates and JVs' would be permitted and whether such a subtotal would be in the operating category.

Finally, a few respondents questioned the relevance of the IASB's proposals when applied to separate financial statements. These participants, including academics, detailed that there were concerns about linking the classification of income and expenses from associates and joint ventures to the basis of its measurement (use of equity method, which could be seen as a measurement basis or a one-line consolidation). In the separate financial statements, it is not so clear why dividends (that are a proxy of a post-tax and post-NCI result), by a subsidiary measured at cost could be classified, subject to certain conditions, in the operating category while the results from a subsidiary accounted for under the equity method would have to be classified in the investing category. Furthermore, one participant stated that the same concerns could arise in the consolidated financial statements of venture capital organisations that elect to measure their associates and joint ventures by using the equity method instead of fair value; for such entities the results deriving from the use of equity method would be classified in the investing category while the adoption of fair value method would lead to a classification of the fair value gains and losses in the operating category.

Insurance industry

When providing views on the presentation of associates and joint ventures, preparers and representatives of the insurance industry highlighted that the issue of associates and joint ventures is very important and material for insurance companies and highlighted that the IASB's tentative decision to present all equity accounted instruments within the investing category did not seem to be consistent with the spirit of IFRS 17. In addition, the IASB's proposal seemed to be focused on the measurement basis of the investment rather than the substance of the investment.

These stakeholders highlighted the importance of presenting investments in associates and joint ventures that are linked to insurance contracts (i.e., that are backing up insurance liabilities) or linked to own funds within operating profit (in net financial result). Else, there would be a mismatch as the operating category would only include expenses related to insurance contract liabilities and no associated investment revenue from the assets held to service those liabilities.

Some noted that the specified subtotal 'operating profit or loss and income and expenses from investments accounted for using the equity method' would not mitigate the concerns as it would include all types of associates and JVs, including those not linked to insurance contracts. The concerns would not even be mitigated by a MPM as the operating category is a key measure and it would be incomplete.

Some also noted that the use of the election in IAS 28 *Investments in Associates and Joint Ventures* would not entirely resolve the presentation issue as measuring all associates and joint ventures at fair value would increase earnings volatility and the scope of the election is limited to a specific type of associates and joint ventures. Similarly, it was noted that using an MPM reflecting operating profit or loss and income and expenses from investments accounted for using the equity method that are related to insurance contract liabilities would not mitigate the concerns as the operating category was key and would be incomplete.

There was also a different understanding about the scope of paragraph 18 of IAS 28, which allows specific entities to measure associates and joint ventures at fair value:

- some considered that not all associates and joint ventures could be measured at fair value in accordance with IAS 28 (only those held by investment funds);
- others had a wider interpretation of paragraph 18 of IAS 28; and
- others measured only the portion of an associate that is an underlying item for insurance contracts accounted for under the variable fee approach at FVPL whereas the remaining part is accounted for using the equity method. This would create a partial asset-liability mismatch.

Some users expressed the importance of a clear distinction between associates and joint ventures that are investments at the service of the insurance liabilities (including those that are only partially covering insurance liabilities) and other investments (e.g., investments in other insurance companies), and having an operating category that would reflect the business activities of the insurance companies.

When discussing possible ways forward, the following possible alternatives emerged:

- for entities that invest as the main business activity, all associates and joint ventures should be presented in the operating profit, including equity accounted investments. This would result in a consistent approach for all investments made by insurance companies;
- consider a rebuttable presumption for insurance companies that all associates and joint ventures are investments related to the insurance business and have a separate presentation of income and expenses from associates and joint ventures accounted for using the equity method within the operating category. This would allow users to make any necessary adjustments;
- present income and expenses for all associates and joint ventures in the operating category supported by robust disclosures on the different types of associates and joint ventures included (e.g., backing up insurance liabilities, supporting insurance business, real estate investment, ESG investment, other investment, etc.); and
- a separate presentation of equity accounted associates and joint ventures that are related to insurance contract liabilities within the operating category, which would allow users to make any necessary adjustment.

Analysis of operating expenses

The IASB tentatively decided to:

- *continue to require operating expenses to be presented in the statement of profit or loss using a classification based either on their nature or function and include application guidance on deciding which method of presenting operating expenses provides the most useful information;*
- *withdraw the proposed prohibition on a mixed presentation of operating expenses and require an entity to consider the role of primary financial statements when deciding which method to use;*

- *provide examples of when a mixed presentation might provide the most useful information;*
- *provide application guidance to clarify the requirement for consistent presentation of operating expenses from one reporting period to the next and how to label nature line items when a mixed presentation is used;*
- *expand the explanation in the description of the function of expense method to clarify how the function of expense method involves allocating and aggregating operating expenses according to the activity to which the consumed economic resource relates;*
- *provide application guidance to clarify the role of primary financial statements and the aggregation and disaggregation principles in applying the function of expense method;*
- *require an entity to include in cost of sales the carrying amount of inventories recognised as an expense during the period when presenting cost of sales; and*
- *require an entity that presents functional line items to disclose a narrative description of what types of expenses (based on their nature) are included in each functional line item.*

To achieve a more balanced outcome between costs for preparers and benefits for users, the IASB tentatively decided to:

- *require an entity to disclose the amounts of depreciation, amortisation and employee benefits included in each line item in the statement of profit or loss; and*
- *explore a general requirement that would require an entity to disclose, for all operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss.*

Questions for participants on presentation:

- *Do you think that the IASB's tentative decisions on the presentation of operating expenses will result in useful information for users?*
- *Are the IASB's tentative decisions on presentation of operating expenses clear and easy to apply?*
- *Do participants identify any potential implementation and application concerns?*

Questions for participants on disclosures:

- *Does the IASB's tentative decision provide a better balance of costs and benefits than the proposal in the ED?*
- *Do you think the list of line items in the proposal should also include impairments and write-downs of inventories?*
- *Do you think requiring an entity to disclose, for all other operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss would provide a similar balance between costs and benefits as the revised proposal?*

Mixed presentation

When discussing the IASB's tentative decision to withdraw the proposed prohibition on a mixed presentation of operating expenses, many preparers welcomed the IASB's tentative decision as in some instances the mixed method provides useful information to users of financial statements (e.g., for conglomerates) and it would prevent arbitrary allocations of some expenses by nature to by function line items (e.g., goodwill impairment). Some of these preparers considered that it was important to have a clear description of the by function and by nature method. For example, whether restructuring operations would be considered a by function line item.

However, users in general and some preparers were not in favour of an unrestricted mixed presentation as it could lead to cherry picking of by nature items presented on the face of the statement of profit or loss and impair comparability.

Presentation by function expense method

In general, users welcomed the IASB's tentative decisions to provide additional guidance on the use of by function expense method, as it would help them better understand what type of expenses are within each function line item and was likely to improve consistency over time (e.g., the IASB's tentative decision to require companies to disclose a narrative description of what types of expenses, based on their nature, are included in each functional line item and the application guidance to clarify the requirement for consistent presentation of operating expenses from one reporting period to the next). Users highlighted that it was fundamental to have more disaggregation of the operating expenses by function method (particularly cost of sales which currently is not defined) as companies often provided a low number of line items and subtotals presented on the face (the IASB's illustrative examples where the by function presentation includes half of the line items when compared to by nature presentation). Academics confirmed that users, due to the lack of definition of functional costs, are interested in obtaining information by nature when entities present the income statement by function.

However, some preparers indicated some application concerns. For example, there were:

- questions on the presentation of line items such as restructuring costs and impairment of fixed assets, which were difficult to allocate to by function line items;
- concerns that some line items (such as legal claims, goodwill impairments, royalties, non-income related taxes, and restructuring expenses) had characteristics of both nature and function elements. Without clear guidance it was difficult to make the distinction whether a pure by function method or mixed presentation was being used by a company;
- some concerns from preparers about ending up with a more rigid description of the function of expense method as it could reduce the usefulness of the information. For example, allocating restructuring costs to the total Research and Development costs ("R&D") could inflate the R&D expense presented in the income statement and potentially providing deceptive information about the real cost of resources allocated to the R&D activities of an entity in a given period. It could also lead to arbitrary allocation of expenses that, based on their nature, are not clearly allocated to the lines that are presented by function (e.g., gain/loss on business disposals, impairment of fixed assets related to natural disasters, social unrest/riots or wars); and

- questions on how the disaggregation requirements will interact with the subtotals ‘other expenses’. That is, whether items such as legal claims, goodwill impairments, royalties, non-income related taxes and restructuring expenses could be aggregated in a single line item called “Other expenses” when considering the new guidance on disaggregation.

Therefore, these participants considered that the wording to be used in a future IFRS Accounting Standard on presentation by function expense method would be fundamental.

In addition, insurance companies raised questions on how the IASB’s presentation proposals in the Primary Financial Statements project would interact with the presentation requirements in IFRS 17 where most of operating expenses would be allocated to the ‘insurance service expenses’ and presented within the ‘insurance service result’.

Disclosures by nature when presenting by function expense method

When discussing the IASB disclosures by nature when presenting by function expense method, users and preparers often expressed different views although they acknowledged that the IASB’s tentative decision was a compromise.

Users of financial statements - overview

In general, users consistently indicated that disclosures of operating expenses by nature when presenting by function were fundamental for them to carry out analysis, forecasts and cross-sector comparisons. Particularly when considering the link to the statement of cash flows and non-financial information. For example, users noted that items by nature such as amortisation, depreciation, impairments, employee benefits and energy costs were fundamental for them.

Some users expressed preference for the IASB’s approach included in the ED (e.g., total operating expenses by nature), although they also welcomed disaggregation of line items presented by function such as ‘cost of sales’. There were concerns about potential loss of information with the revised disclosure approach as currently some preparers provide more information than what is required by IAS 1 and the IASB’s proposal could lead to less disclosures in terms of number of line items presented by nature. A few users were not convinced with the cost argument put forward by preparers and provided the example of IFRS 15 for the telecommunication industry, which currently was being used successfully by telecommunication companies.

Finally, there were users (and also regulators) that acknowledged the IASB’s revised proposal as compromise between costs for preparers and benefits for users.

Preparers of financial statements - overview

When discussing the IASB’s proposals with preparers, EFRAG received mixed views. Some preparers preferred the IASB’s approach included in the ED (e.g., total operating expenses by nature), while others welcomed the IASB’s revised disclosures. Their preference often depended on the IT systems that they currently have.

Nonetheless, when discussing specifically the implementation of the IASB’s revised approach for disclosures, preparers highlighted that it would be costly to implement (often not recognising any benefits) and identified a number of challenges in applying the revised disclosures. For example:

- providing expense amounts rather than cost amounts would be challenging for entities using standard costing systems, particularly for SMEs such as subsidiaries. For example, for the cost of sales, it is not possible to determine the exact amounts of specific nature costs (including depreciation and amortisation) that were included in the carrying amount of sold inventory. These amounts were only recognised as an expense when the sale would occur, which could take place only in the following years (e.g., thus one part could be recognised as an expense in the year and other parts in the following years);
- the information would not be issued from the consolidation system and would not be based on audited IFRS data. Thus, it was questioned how useful this piece of information would be for the users. The users might be more interested in obtaining more information related to the operating segments;
- insurance companies questioned how the proposed disclosure requirements would interact with the presentation requirements under IFRS 17 (where most of operating expenses would be allocated to the ‘insurance service expenses’ and presented within the ‘insurance service result’), as it was significantly different from corporate entities presenting by function (one participant illustrated a possible example, based on the requirements under IFRS 17, of disclosures by nature of operating expenses, with a detailed description of staff expenses and the deduction related to the expenses attributed to incurred insurance expenses). Currently, insurance companies are implementing IFRS 17, taking into account the requirements in IAS 1 for disclosures by nature when presenting by function. Therefore, any change would require a change in the disclosure approach shortly after implementation of IFRS 17.

Participants called for implementation guidance and asked whether it would be possible, as a practical expedient, to disclose the total costs of the year rather than the expenses recognised in the statement of profit or loss.

Disclosures on impairments and write-downs of inventory

Many participants observed that for some industries (e.g., pharmaceutical), the statement of profit or loss was more impacted by impairments than amortisation expenses. Therefore, it was suggested that impairments should be included in the list of required disclosures as for pharmaceutical companies it was an important disclosure.

As mentioned above, many users noted that items by nature such as amortisation, depreciation, impairments, employee benefits and energy costs (which were linked to information on sustainability) were fundamental for them.

Disclosing, for all operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss

When discussing a potential general requirement that would require an entity to disclose, for all operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss, some preparers considered that it was extremely difficult, costly and not useful to provide information by nature, so they supported the minimum approach.

Management performance measures

The IASB's ED proposes disclosure requirements for MPMs which it defined as subtotal of income and expenses that:

- are used in public communications outside the financial statements;
- complement totals or subtotals specified by IFRS Accounting Standards; and
- communicate to users the management's view of the entity's financial performance.

The ED also proposes to require an entity to disclose the tax effect and the effect on non-controlling interest for each item disclosed in the reconciliation between an MPM and the most directly comparable subtotal or total specified in IFRS Accounting Standards.

The IASB received feedback that the definition of an MPM may be too subjective to capture all of the measures intended by the proposal and the requirement to disclose tax and NCI effect for each reconciling item may be complex and costly to apply. Therefore, the IASB tentatively decided to:

- establish a rebuttable presumption that a subtotal of income and expenses included in public communications outside financial statements represents management's view of the entity's financial performance. The rebuttal could be supported with reasonable and supportable evidence that the MPM did not represent management's view of an entity's financial performance;
- simplify the method of calculating the tax effect for reconciling items – either by calculating the tax effects at the statutory tax rate(s) applicable to the transaction(s) in the relevant jurisdiction or also allocate any other tax effects based on a reasonable pro rata allocation of the current and deferred tax of the entity in the jurisdictions concerned.

Questions for participants from the IASB:

- Do you think that establishing the rebuttable presumption will achieve its objectives?
- Does the IASB's tentative decision to revise the method used to calculate the tax effect of individual reconciling items will provide a better balance of costs and benefits than the initial ED's proposal?

Additional questions for participants from EFRAG:

EFRAG also consulted on the IASB's tentative decision to expand the scope of MPMs by including the numerator or denominator of a ratio, if that numerator or denominator meets the definition of an MPM. The additional questions were:

- How often do you consider that ratios would contain a numerator or denominator which would qualify as an MPM?
- Do you consider useful to have only the numerator or denominator as an MPM, if it meets the definition of an MPM, and not the ratio itself?
- Do you think that the proposed requirement will result in useful information for users and significant costs for users?

- *Do you consider that entities should explain why the numerator or denominator are not individually MPMs without considering the ratio?*

Changes to the scope and requirements on MPMs

A few participants to the roundtable discussions, including preparers of financial statements, considered that the scope of the IASB's proposals (in regard to the type of measure) was too narrow and could be extended to include other types of measures as ratios and measures based on the information coming not only from the statement of profit or loss but also from the statement of financial position and statement of cash flows (e.g. measures used by financial institutions).

There were also questions, particularly from financial institutions and conglomerates, the extent to which additional subtotals would be permitted and whether they would be considered as MPMs or specified subtotals. In particular, some preparers questioned whether a subtotal that is derived from presented line items (without any adjustment) or subtotals of subtotals meet the definition of an MPM. The question was particularly relevant for banks and conglomerates that will have in practice a wide operating category and may want to present subtotals (e.g., subtotals of subtotals) within the operating category. These participants were concerned that they would have to provide extensive reconciliations related to the MPM requirements and were not sure how such reconciliations would have to be done.

In addition, some preparers questioned how MPMs would interact with performance measures already presented under IFRS 8, such as EBITDA, EBIT and (management) operating profit. These participants suggested that the IASB provide additional application guidance on the link between them as it was not clear whether reconciliations were needed.

Finally, a few preparers also raised questions on how the notion 'public communications outside financial statements' would be applied to private non-listed companies, including subsidiaries (e.g., should an entity consider those communicated in the management report or segments of the parent entity).

Management performance measures - rebuttable presumption

Many participants to the roundtable discussions welcomed the new rebuttable presumption on MPMs, including preparers and users of financial statements. These participants considered that the IASB's tentative decision was a practical way of dealing with the subjectivity around whether a performance measure reflects management view. However, participants raised questions on whether an entity will have to disclose when it rebuts the presumption that a specific subtotal of income and expenses is an MPM.

By contrast, regulators and highly regulated entities, such as banks and insurance companies, raised questions on the effective applicability of the rebuttable presumption for all the significant measures communicated for regulatory purposes which could include measures that are difficult to reconcile with IFRS measures and might lead to additional disclosures related to rebutting the IASB's presumption. There was also the concern that this could lead to a wider scope for MPMs than the IASB intended.

Management performance measures - simplified method of calculating the tax effect for reconciling items

In general, users considered that disclosures on the tax effect for reconciling items were important, even when a simplified method is used. Users acknowledged that calculations on the tax effect for reconciling items could be complex and judgmental but considered such disclosures useful.

Some participants, including preparers and users, welcomed the proposed simplified solution for the income tax effects for each reconciling item as it would remove large part of operational complexity for preparers and provide useful information to users. However, a few preparers noted that the method can lead to oversimplifications and the disclosed amounts can be very different to the actual effects.

By contrast, some participants, particularly preparers, expressed concerns on the IASB's proposal to require disclosures on the tax effect for each item disclosed in the reconciliation, even with the simplified approach proposed by the IASB, both in terms of practical issues and usefulness of the information. In particular, participants:

- noted that for global groups, which operate in different countries with different tax regimes, the tax effect of a reconciling item may be very complex and may not result in meaningful information, especially when a transaction is reflected in other comprehensive income or when subsidiaries contribute differently to consolidated tax calculation base (for example with profit or tax loss);
- considered that calculations of tax effect could affect the auditability of such information;
- considered that the revised simplified method could reduce the reliability and the usefulness of the information (especially in the interim financial statements); and
- requested for illustrative examples to help implementation.

Management performance measures – Disclosures on each reconciling item

In general, users considered that disclosures on each reconciling item would provide useful information.

However, preparers highlighted that the combination of by individual line and tax and NCI effect by item may result in a complex presentation, particularly if an entity also presents by segment (current practice for some entities). It was also mentioned that it would be costly to provide this information as current reporting systems were not set to generate this information. These preparers questioned whether reconciliation could be done at subtotal level rather than by line item.

Some participants highlighted that users prefer linking the reconciliations to the operating segments as per IFRS 8 rather than to each reconciling line item. Thus, there were questions on the need to disclose, for each reconciling item, amount(s) related to each line item in the statement(s) of financial performance.

Unusual income and expenses

The ED proposed introducing a definition of 'unusual income and expenses' and requiring all entities to disclose information about unusual income and expenses in a single note.

The IASB received feedback that the definition of unusual income and expenses proposed in the ED was subjective, required more application guidance and included income and expenses that some did not view as unusual.

Given the feedback from stakeholders that other aspects of this project should be finalised as quickly as possible, the IASB has tentatively decided not to proceed with any specific requirements for unusual income and expenses as part of this project.

Questions for participants:

- *Do you have any comments on the IASB tentative decision to withdraw the proposals for unusual income and expenses?*

Many participants to the roundtable discussions, particularly preparers, welcomed the IASB's decision not to proceed with any specific requirements for unusual income and expenses as there is no consensus on what it is. Some of these participants had participated in EFRAG field-tests and the initial proposals were found difficult to apply in practice.

By contrast, users, regulators and some preparers disagreed with the IASB's tentative decision to withdraw the definition and disclosure requirements on unusual items. Some participants highlighted the importance of having more transparency and discipline on the use of 'unusual items' or 'non-recurring items' in the financial statements. Any high-level guidance or rules basis approach would be useful to mitigate diversity in practice. Some of these participants highlighted that some local regulators already required identification and disclosures of unusual items under local GAAP.

Other comments

Effective date

One participant cautioned the IASB to consider that some companies are also listed in the U.S. when deciding on the effective date of the future standard (they need to present two years of comparatives).

Some preparers that currently present operating expenses by function noted that changes to the disclosure requirements by nature would mean a longer implementation process.

Re-exposure

A few participants noted that considering the level of comments in the outreach, there was a question as to whether the IASB should re-expose the ED.

Statement of comprehensive income

One participant highlighted that statement of comprehensive income was very important for financial institutions and the IASB seemed to be silent on the presentation requirements within the statement of other comprehensive income.