Introduction

In order to receive input from Norwegian and other constituents and to stimulate the discussion around the IASB® Exposure Draft on General Presentation and Disclosures (‘the ED’), the Norsk RegnskapsStiftelse (Norwegian Accounting Standards Board - NASB), the Norwegian Society of Financial Analysts (NFF), EFRAG and the IASB arranged a joint outreach online event on 17 June 2020. This report has been prepared for the convenience of European constituents to summarise the event and will be further considered by the involved organisations in the respective due process on the IASB proposal.

The program of the event can be consulted here and the speaker’s bio’s – here.

Karina Vasstveit Hestås, Chair NASB, welcomed participants, introduced the speakers and provided an overview of the agenda.

Françoise Flores, IASB Board member, and Aida Vatrenjak, IASB Technical staff, presented the IASB’s proposals included in the ED.

Chiara Del Prete, EFRAG TEG Chairwoman, and Erlend Kvaal, EFRAG TEG member, presented EFRAG Draft Comment Letter on the IASB’s proposals included in the ED.

The event focused on 3 topical issues and for each of them the IASB representatives introduced the proposals, the EFRAG representatives presented EFRAG preliminary position and the panellists Teodor Sveen-Nilsen, from SpareBank1 Markets and board member of NFF, and Morten Haukaas, from Equinor and NRS, participated in the discussion and provided their views. Kjell Ove Røsok from NRS managed questions and responses from the audience.

The audience provided their views on the proposals as illustrated below through polling surveys and asked questions to the speakers (below reported as “SLIDO Q&A”).

IASB introduction to its Exposure Draft General Presentation and Disclosures

Françoise Flores, IASB Board member, introduced the IASB project Primary Financial Statements (‘PFS’). In particular, Françoise Flores explained that this project was a part of the IASB work on having Better Communication in Financial Reporting. The IASB discussions on this project started early in 2016 and in December 2019 the IASB had published its ED with a comment period ending on 30 September 2020. The comment period had been prolonged by 3 months because of COVID-19 to give more time for discussions and feedback and to conduct field testing.

Françoise Flores noted that the ultimate objective was to replace IAS 1 Presentation of Financial Statements with a new IFRS Standard that would include new guidance on the structure and content of PFS, retained guidance from IAS 1, subject to some improvements and clarifications. In addition, some of the existing requirements would be moved from IAS 1 to other IFRS Standards. The IASB would also amend a number of other IFRS Standards such as IAS 7, IAS 33, IAS 34 and IFRS 12 as a result of this project.

Françoise Flores explained that the key proposals included in the ED were focused on improving the structure and content of primary financial statements with particular focus on the statement of profit or loss and with making limited changes to the statement of cash flows, both with the objective of improving comparability. The IASB was also proposing improvements to the transparency by strengthening the requirements for disaggregating information and proposing discipline on the use of management-defined performance measures and unusual income and expenses.
**EFRAG introduction to its Draft Comment Letter in response to the IASB ED**

Chiara Del Prete, EFRAG TEG Chairwoman, presented [EFRAG draft comment letter](#) ('the DCL') in response to the IASB ED. She explained that EFRAG had published its DCL on 24 February 2020, including the results of the *Early Stage Analysis* and that the responses from constituents would be welcomed by 28 September 2020. Chiara Del Prete referred to EFRAG long lasting work on this project, including in the current open consultation phase a number of joint online outreach events with users of financial statements and National Standard Setters and a field test with preparers organised jointly with the IASB and the National Standard Setters (for which the call for interest is still open until the end of July). This event was the fourth of a series of events, which could be found on EFRAG’s website.

Chiara Del Prete provided an overview of EFRAG preliminary position exposed for comments in the DCL, which in general welcomed the IASB proposals on improving how information is communicated in the financial statements, as it responded to a strong demand from users to improve the structure and content of the primary financial statements. She also highlighted that EFRAG had made a number of suggestions to the IASB to improve its proposals and was asking for the views of its constituents on a number of specific topics for which EFRAG had not yet formed a view and would assess the constituents’ feedback before taking a position in the final comment letter.

The profile of participants is summarised below (labels sorted by amount from left to right)

![Profile of participants](#)

- Preparer
- Auditor
- Other
- Regulator
- Academic
- Investor/Analyst

**Participants by region**

- Norway: 29 participants
- United States: 8 participants
- Finland: 8 participants
- Belgium: 7 participants
- United Arab Emirates: 8 participants
- Other countries: 139 participants
- United Kingdom: Not Available
- Italy: France
- Hong Kong: Sweden
- Canada: Austria
- Germany: Egypt
- Spain: Turkey
- Japan: Denmark
- Romania
**Discussion**

Karina Vasstveit Hestås, explained that the planned discussion would not go deeply into issues related to financing and banks and concentrate on other aspects of the ED.

**Topic 1: Structure of the income statement, including subtotals and categories**

Aida Vatrenjak provided a brief overview of the IASB proposals on the use of subtotals and categories in the income statement, including the allocation principles of income and expenses to the new operating, investing and financing categories. These subtotals would provide relevant information to users of financial statements, particularly with the introduction of the new subtotal ‘operating profit or loss’ and create a more consistent structure of the statement of profit or loss, thereby improving comparability among companies. She mentioned that operating profit includes the main business activities of an entity but was defined as a residual or default category. Aida Vatrenjak referred to allocation principles for the new financing and investing categories, including the reasoning for the classification of cash and cash equivalents and unwinding of discounts in the financing category. Aida Vatrenjak also explained the IASB proposals on defining and separately presenting integral and non-integral associates and joint ventures, including the introduction of a new subtotal. The separation of income and expense from integral associates and joint ventures from operating profit would allow to calculate margins appropriately but to address the request of preparers to present such income and expense close to operating. Finally, she explained the IASB proposals on the analysis of operating expenses, including the new guidance focused on helping entities to decide on the most useful method of analysis of operating expenses and requiring entities that provide an analysis of their operating expenses by function to provide information by nature in the notes. A mixed presentation would not be allowed except for minimum line items to be presented on the face.

Erlend Kvaal provided an overview of EFRAG tentative views included in EFRAG DCL. He noted that defining operating profit subtotal was a key proposal of the IASB that EFRAG broadly agreed with. However, Erlend Kvaal questioned the labelling of the new categories as they were similar to the categories in the statement of cash flows without being aligned. In addition, he reported the more issues around conglomerates and financial institutions included in the EFRAG Draft Comment Letter on whether more guidance is needed for the presentation of revenues and costs when they are allocated to different business activities on the face and explained EFRAG concerns on the significant judgement involved on the classification of integral and non-integral associates and joint ventures. He highlighted the suggestions included in the DCL to the IASB to clarify their proposals on the analysis of operating expenses by function or by nature and would appreciate to have more discipline in this. Finally, Erlend Kvaal mentioned that EFRAG was seeking constituents’ views on a number of topics, including the classification of cash and cash equivalents and unwinding of discounts within the financing category.

Morten Haukaas (preparer), welcomed the IASB’s efforts to improve the relevance of the financial statements and generally supported the direction of the project. However, he mentioned that each new IFRS Standard would involve implementation costs for preparers and called for the IASB to compare the implementation costs for preparers with the added value for users before issuing a new IFRS Standard, particularly when considering the recent implementation costs of big IFRS Standards such as IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases. He also mentioned that the implementation period of 18-24 months might be challenging if a significant change to the IT systems was required. In addition, he considered that comparability was important, but comparability should be mainly considered for peers within the same industry and not across different industries.
He also considered that the IASB proposals would reduce the risk of having unclear definitions and inconsistent use of subtotals, thus improving comparability. However, this would come with a price as the requirement to present specific subtotals across different industries could reduce the relevance of financial statements. Thus, he called for more flexibility in regard to the use of subtotals.

In addition, he expressed concerns about the IASB’s proposals to define and separately present integral and non-integral associates and joint ventures (e.g. investments in wind farms that are classified as joint ventures where for one windfarm the entity is wholesaling the electricity while for the other this is done by the partners, which would lead to different classifications when considering the IASB proposed criteria in paragraph 20D of IFRS 12 Disclosure of Interests in Other Entities) as they would not properly consider the main business activities of an entity and, consequently, not deemed useful for the users. He considered that the IASB’s proposals for the definition of integral and non-integral associates and joint ventures were not appropriate and would involve significant judgement. Instead he suggested the IASB to focus on whether investments were or not related to the same sector of the entity’s main business activities.

In regard to the analysis of the operating expenses, he mentioned that a mixed approach basis was working well in his industry (i.e. energy industry) and considered that a change in current requirements would require a significant change of the IT systems and would be costly.

He called for the IASB to continue to work with the FASB on key issues such as presentation of financial statements to avoid differences between IFRS Standards and US GAAP. Finally, he did not think that it was useful to require separate presentation of goodwill.

Teodor Sveen-Nilsen (user), highlighted the importance of having consistent financial reporting over time, to not obscure financial statements with irrelevant information in text when tables provide better information and called for use of the same financial reporting format within the same industry and between peers.

He considered that the IASB proposals to introduce new definitions and subtotals were important, albeit users often used EBITDA and EBIT, which were not defined by the IASB. He also agreed with Morten Haukaas on focusing on comparability within the same sector and avoiding differences between IFRS Standards and US GAAP.

Nonetheless, he questioned the relevance of the IASB proposals on the separate presentation of integral and non-integral associates and joint ventures. He was not sure whether companies would define them equally across sectors and companies. He suggested that joint ventures with same underlying exposure (e.g., prices for a certain product) should be presented higher up in the income statement and joint ventures with different underlying exposure should be presented lower in the income statement.

In regard to the analysis of operating expenses, he did not have any preference for a specific method. He thought that the presentation by nature was maybe the most intuitive presentation and very useful to model future cash flows, although a mix presentation could also be useful. In particular, for some specific capital-intensive industries it was important to have a separate line item for depreciation of PPE even if it was presented by function or on a mixed basis. He also considered that consistency within peer group was the most important point.
Aida Vatrenjak recalled that the IASB had considered the challenges of striking the right balance between satisfying the needs of users by providing a more structured income statement while also allowing management to convey its views of the company’s financial performance, which could be done in the form of Management Performance Measures. Aida Vatrenjak also acknowledged the concerns on the classification of integral and non-integral of associates and joint-ventures and noted that field-tests would be key. She considered the remark to the underlying exposure by Teodor Sveen-Nilsen as very useful.

On the live poll question, Chiara del Prete was referring to the current diversity in practice and noted EFRAG was getting during the outreach a consistent message that more consideration is needed on the presentation of associates and joint ventures.

Aida Vatrenjak added that the live poll reflected the fact that there was no clear answer on the presentation of associates and joint ventures. From the perspective of the users of financial statements, it would be a good result that only a small proportion would want results from associates and joint ventures to be presented as part of the operating result and thus impacting the operating profit margin.

**Topic 2: Management Performance Measures and unusual income and expenses**

Françoise Flores presented the IASB proposals on Management Performance Measures ('MPMs') and unusual income and expenses. She noted that regulatory requirements in relation to non-GAAP measures vary between jurisdictions. In Europe the Alternative Performance Measures ('APM') as specified by ESMA have much in common with the concept of MPM. She further noted that the IASB proposals were focused on requiring disclosures on key measures of financial performance that were used in public communication to introduce more transparency and discipline on their use. MPMs would not include non-performance measures like number of Subscribers, nor they would cover balance sheet or cash flow measures, like Free cash flow or Net debt. She also explained that reconciliations of the MPMs to the subtotals presented in the statement of financial performance were to be provided in a single note, as a response to users’ requests. Such reconciliation would at users’ requests require to present tax effects and effects on NCI. As the MPMs are presented within the financial statements they are in the scope of the audit. Françoise Flores also explained that the unusual items were also introduced as a response to users’ requests to have more guidance on unusual items as currently there is diversity in practice on their definition and use. She clarified the IASB definition of unusual income and expenses as income or expenses with limited predictive value would address nature and magnitude. She explained the requirement to include them in a single note and the interaction with MPMs.

Chiara Del Prete noted that MPMs were a key part of the debate. She acknowledged the need to have more guidance and discipline on the use of MPMs. She recalled that in Europe there was already guidance from ESMA on Alternative Performance Measures ('APM') which was applicable to the information provided outside the financial statements. Chiara Del Prete explained that EFRAG had identified a number of challenges including scope of the definition, the quality of data and the aspect of additional costs from the audit and was asking for stakeholders' views. She explained how the IASB’s
proposals on MPMs differed and interacted with the ESMA Guidelines on APMs. She also explained that EFRAG had suggested the IASB to refine the definition of unusual items to include items that presently occur in the business but only for a limited period of time. Finally, she referred to EFRAG’s tentative views on the disclosure of unusual income and expenses.

**Teodor Sveen-Nilsen** mentioned that MPMs were important for users to better understand the underlying business of an entity and make reasonable estimates of future earnings. He also believed that consistent reporting of MPMs over time, including interim financial statements, was fundamental so that users of financial statements could easily find the MPMs. In addition, he considered that reconciliation tables of MPMs and IFRS numbers were also fundamental. For example, it was important to reconcile *Adjusted Operating Profit* with the subtotal *Operating Profit* as defined by the IASB. Finally, he highlighted that understanding the individual adjustments was critical to be able to estimate recurring earnings.

**Morten Haukaas** recognised the importance of management-defined performance measures. He highlighted the need of comparability and understandability of the numbers used. However, he considered that the IASB proposed definition of MPMs was too narrow in terms of scope when compared to APMs as defined by ESMA. He questioned whether the intended requirements was going to provide useful information to users for financial statements or add uncertainty and confusion to the reported numbers as in the end there would be many types of performance measures located in different parts of the annual reports, including IFRS performance measures, management performance measures, alternative performance measures, unusual items and integral and non-integral. He also noted that companies in Norway had already to comply with ESMA regulations on APMs.

On unusual items, he questioned the usefulness of the IASB proposals as the proposed definition of unusual items was vague, narrow and highly judgemental. In addition, he mentioned that the items under the scope of the IASB definition of unusual items were likely to be covered by the IASB’s proposals of MPMs. Finally, he explained that he supported having more disaggregation of line items in the notes.

**Aida Vatrenjak** recalled that users of financial statements often considered that it was important to have more transparency and discipline on the use of MPMs in the financial statements, even if there was less agreement on the scope and that they would appreciate that MPM are subject to audit. Nonetheless, she acknowledged the comments from preparers that the IASB proposals may duplicate and have different scope from ESMA Guidelines on APMs. Currently, MPMs complement subtotals in the statement of financial performance; any change in the scope of the measures addressed would no longer fit within this concept.

When referring to the live poll question, **Françoise Flores** considered that if the scope of MPMs should be wider, then stakeholders should clearly state and provide guidelines to the IASB on how to widen the scope.

**Chiara Del Prete** added that EFRAG had included a question in its DCL and was looking forward to getting feedback from stakeholders on the scope of MPMs.
Aida Vatrenjak replied that this topic had not been discussed in detail in this webinar as the definition of “main business activity” was mainly related to financial institutions, such as banks and insurance companies, and conglomerates. In the ED, the IASB had provided indicators of entity’s main business activity and did not define entity’s main business activities. The objective was to ensure that entities that provide financing to customers or/and invest as part of the entity’s main business activity would present related income and expenses within operating profit, one of the main subtotals for users of financial statements. The IASB was currently running field-tests and would consider the results in its future discussions.

**SLIDO Q&A: Is IASB considering to develop definition of "an entity's main business activities"?**

Aida Vatrenjak explained that in paragraph 69 of the ED the IASB provided a description about the presentation by nature.

**SLIDO Q&A: Is there a definition or description of “nature”?**

Aida Vatrenjak replied that an entity does not need to provide a specific presentation or disclosure required by an IFRS Standard if the information resulting from that presentation or disclosure is not material. This is the case even if the IFRS Standard contains a list of specific requirements or describes them minimum requirements. However, she considered that the materiality concept should not be simply based on the amount feature but also on the relevance of the associate and joint venture for the entity.

**SLIDO Q&A: How can immaterial associates/joint ventures be combined with other items? Is this not possible due to subtotals?**

Aida Vatrenjak referred to the importance of having completeness and comparability of the line items presented in the financial statements, particularly when an entity opted to present its operating expenses by function. This was important as well due to the new electronic format. She acknowledged EFRAG’s comment on clarifying which line items could be presented by nature when an entity presented its operating expenses by function.

Aida Vatrenjak explained the IASB had decided to follow a principle approach that could be applied to all entities rather than providing industry specific guidance. She also briefly explained how the IASB proposals would apply to entities that provide finance to customers or make investments as part of their main business activities.
**Topic 3: Cash flow statement**

**Aida Vatrenjak** provided an overview of the IASB proposals for the statement of cash flows. She explained that these proposals had a limited scope and that the IASB did not intend to review the whole cash flow statement. In the ED, the IASB proposed the ‘operating profit or loss’ as a consistent starting point for the indirect method of the statement of cash flows, the elimination of the options on the presentation of interest and dividends and separate presentation of cash flows from integral and non-integral associates and joint ventures. This with the objective of improving comparability.

**Chiara Del Prete** provided an overview of EFRAG’s tentative views on the IASB proposals for the statement of cash flows. EFRAG had generally welcomed the IASB proposals, however it had suggested the IASB to have a separate project on IAS 7 *Statement of Cash Flows* with the objective of having a comprehensive review of the challenges that arise in practice (e.g. financial institutions) and improve consistency with the new content and structure of the statement of profit or loss.

**Teodor Sveen-Nilsen** generally agreed with the IASB proposals. He thought that using the operating profit as starting point for the indirect method was better than net profit. He also considered that the IASB proposals would provide more relevant information to users and would improve consistency and comparability. In regard to the presentation of cash flows of joint ventures, he considered the proposals more challenging. There were good arguments for including in operating cash flow if the joint ventures had the same underlying business risk as the company and if earnings were recurring. Finally, he supported the use of the indirect method, as well as most of his colleagues, as it provided a reconciliation to the income statement.

**Morten Haukaas** supported the IASB’s proposals for starting with operating profit and reduce the options as it would improve comparability. However, he was concerned about the requirement to separately present cash flows from integral and non-integral associates and joint ventures, particularly when taking into account materiality considerations.

**SLIDO Q&A: Are you considering having a separate webinar like this focusing on banks?**

**Chiara Del Prete** replied that EFRAG has currently not scheduled a webinar focusing on financial institutions and was at present consulting its Financial Instruments Working Group which includes several preparers from the industry. EFRAG would continue to consult its constituents until September and would consider the proposal. **Aida Vatrenjak** referred to a recent IASB webinar where it had answered many questions related to financial institutions.

**Aida Vatrenjak** explained that the proposals did not affect recognition and measurement. Therefore, she expected that the proposals would be less likely to affect systems and have fewer process implications for entities than other new IFRS Standards that affect recognition and measurement requirements. Thus, she expected the proposals would be less costly to implement than changes that affect recognition and measurement requirements. **Françoise Flores** highlighted the importance of having input from constituents on which areas are more costly to implement.
Chiara Del Prete also referred to the concerns emphasised in the webinar on the timing to implement the proposals.

![Survey Results]

Karina Vasstveit Hestås thanked the participants for their input, she invited the audience to provide comments to the NASB and EFRAG and closed the event.