

TIME FOR A FACELIFT?

A NEW LOOK FOR THE INCOME STATEMENT

GENERAL PRESENTATION REQUIREMENTS

19 May 2020



AGENDA

Time (CET)	Agenda item	
17:00 – 17:00	Welcome participants	Saskia Slomp
17:00 – 17:15	IASB presentation of the Exposure Draft <i>General Presentation and Disclosure</i> (ED)	Nick Anderson, Aida Vatrenjak
17:15 – 17:25	EFRAG presentation on EFRAG's preliminary position on the IASB's ED	Chiara Del Prete
17:25 – 18:10	User roundtable discussion and Q&A	Marietta Miemietz, Peter Malmqvist, Stefaan Genoe, Hans Buysse
18:10 – 18:15	Take-aways of the user roundtable and close	Serge Pattyn



Welcome speakers

Nick Anderson, IASB Board Member

Aida Vatrenejak, IASB Technical Staff

Chiara Del Prete, EFRAG Chairwoman

Hans Buysse, Chairman ABAF/BVFA, member EFFAS Executive Management Committee and EFRAG Board member

Marietta Miemietz, Director, Primavenue Advisory Services Limited

Stefaan Genoe, Managing Partner Corporate Finance, Bank Degroof Petercam

Peter Malmqvist, Equity analyst, member of EFRAG User Panel




Serge Pattyn, member EFFAS CFR, member of EFRAG User Panel

Saskia Slomp, EFRAG CEO

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ED overview – key proposals & expected benefits

What users said 	Key proposals 	Expected benefits of proposals 
<p>Structure and content of statements of profit or loss varies between different entities, making it difficult to compare entities' performance</p>	<p>Introduce defined subtotals in the statement of profit or loss</p>	<p>Additional relevant information and a P&L structure that is more comparable between entities</p>
<p>Level of disaggregation does not always provide the information they need</p>	<p>Strengthen requirements for disaggregating information</p>	<p>Additional relevant information and material information not being obscured</p>
<p>Non-GAAP measures can provide useful information, but transparency and discipline need to be improved</p>	<p>Require companies to disclose information about management performance measures in the notes.</p>	<p>Transparency & discipline in use of such measures Disclosures in a single location</p>
<p>Classification and presentation options make it more difficult to compare entities</p>	<p>Introduce targeted improvements to the statement of cash flows</p>	<p>Improved comparability between entities</p>

Webinars overview

Topics covered in this webinar

General presentation proposals

Subtotals in the statement of profit or loss

Analysis of operating expenses by nature and function

Targeted improvements to the statement of cash flows

Topics covered in webinar 2 (26 May)

General disclosure proposals

Disaggregation, including unusual income and expenses

Management performance measures

Subtotals and categories (general model)

Revenue	347,000
Other income	3,800
Changes in inventories of finished goods and work in progress	3,000
Raw materials used	(146,000)
Employee benefits	(107,000)
Depreciation	(37,000)
Amortisation	(12,500)
Professional fees and other expenses	(10,030)
Operating profit	41,270
Share of profit or loss of integral associates and joint ventures	(600)
Operating profit and income and expenses from integral associates and joint ventures	40,670
Share of profit or loss of non-integral associates and joint ventures	3,380
Dividend income	3,550
Profit before financing and income tax	47,600
Expenses from financing activities	(3,800)
Unwinding of discount on pension liabilities and provisions	(3,000)
Profit before tax	40,800
Income tax	(7,200)
Profit for the year	33,600

Operating

Integral associates and joint ventures

Investing

Financing

Classification and financial entities — example investment and retail bank

Interest revenue calculated using the effective interest method	356,000
Interest expense	(281,000)
Net interest income	75,000
Fee and commission income	76,800
Fee and commission expenses	(45,300)
Net fee and commission income	31,500
Net trading income	9,100
Net investment income	11,600
Credit impairment losses	(17,300)
Employee benefits	(55,100)
[other line items not shown in this illustration]	(11,800)
Operating profit	43,000
Share of profit or loss of integral associates and joint ventures	(2,400)
Operating profit and income and expenses from integral associates and joint ventures	40,600
Share of profit or loss of non-integral associates and joint ventures	4,200
Profit before tax	44,800
Income tax expense	(11,200)
Profit for the year	33,600

all expenses from financing activities are classified in the operating category rather than the financing category

income (expenses) from investments made in the course of main business activities are classified in the operating category, rather than the investing category

no 'profit before financing and income tax' subtotal

Analysis of operating expenses by nature and function

Statement of profit or loss

Use method for analysis of operating expenses (by nature or by function) that provides the **most useful information**

- **Not a free choice**—the Board proposes to provide a set of indicators to help companies select a method.
- Companies should **not mix** the two methods.
- Would **remove option** to present analysis of expenses in the **notes only**.

Notes

Disclose analysis by **nature** in the notes if analysis by function is presented in the statement of profit or loss

- Analysis of **total** operating expenses—no requirement to analyse each functional line item by nature.

Targeted improvements to the statement of cash flows

Proposals

Single starting point for the indirect reconciliation: **Operating profit**

Removal of classification options for interest and dividends



Cash flow item	IAS 7 classification	Proposed approach	
		Most entities	Entities with particular business activities incl. banks
Interest paid	Operating or financing	Financing	Depends on the classification of the related income and expenses in the statement of profit or loss (mostly operating)
Interest received	Operating or investing	Investing	
Dividends received	Operating or investing	Investing	
Dividends paid	Operating or financing	Financing	Financing

Consultation

Timeline

Q4 2019

Exposure Draft published for public comment

Q1–Q3 2020

Comment period (ends 30 September)*

Q4 2020

Board starts redeliberations

The proposals, if finalised, would result in a new Standard and replace IAS 1 *Presentation of Financial Statements*.

Published materials



Exposure Draft & Illustrative Examples



Snapshot



Video and webinars

*Extended from 30 June due to covid-19 pandemic.

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OVERVIEW AND OUTREACH ACTIVITIES

EFRAG Draft Comment Letter

- EFRAG published its Draft Comment Letter on 24 February 2020, including the results of the **Early Stage Analysis**
- Comment letters are welcomed by **28 September 2020. Views are still preliminary**
- EFRAG welcomes the IASB's proposals on improving how information is communicated in the financial statements, as **it responds to a strong demand from users** to improve the structure and content of the primary financial statements. However, EFRAG highlights a number of issues and requests stakeholders' views on specific topics

Outreach activities

- Outreach with different types of European stakeholders, including users, and different jurisdictions have been converted into public webinars and online events, with technical support by EFRAG Secretariat
- Field test with preparers in coordination with National Standard Setters and the IASB, **by 31 August 2020** (please contact info@efrag.org by 31 July 2020)

EFRAG TENTATIVE VIEWS

New subtotals and categories

- EFRAG supports 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**
- **Operating profit or loss' is one of the most used** subtotals and currently there is a lack of consistency in its use, labelling and definition. **EFRAG Early Stage Analysis**, consistent with researches from others, anticipates that the proposals will require entities to present on the face a subtotal that is already widely used in practice (“OPERATING EARNING, RESULT”). However, many entities may need to change the labelling of to Operating profit or loss and how this subtotal is calculated
- Clear guidance is needed on the notion of 'entity's main business activity. Definition has both a component of residual and of positive definition
- The proposals will in practice have to interact with existing regulatory frameworks on presentation of financial statements. To be tested in practice how the categories will work in different reporting entities level, i.e. separate VS consolidated level
- Judgement and adjustments to the current practice will be required to further split the non-operating components into financing and investing

EFRAG TENTATIVE VIEWS

New subtotals and categories (cont.)

- Dividing financing/investing has to be tested in practice – there is an element of conventional allocation in it - and EFRAG is seeking views on whether the financing category include: income/costs from **cash and cash equivalents**; and **time value of money**
- For “conglomerates” EFRAG is seeking views on whether more guidance is needed for the presentation of revenues and costs when they are allocated to different business activities on the face, including consistency with IFRS 8 *Operating Segments* and disclosure on judgement on the allocation process
- For financial institutions EFRAG agrees to classify the financing components in the operating category. However EFRAG has reservation on presenting gains and losses on derivatives in the investing category and considers that the option for entities such as manufacturer providing financing to customers not to present a separate financing category is only relevant when providing financing to customers is the dominating business activity.

Integral and non-integral associates and JVs

- EFRAG considers that separate presentation of integral and non-integral associates and joint ventures **will result in relevant information for users** of financial statements and enhance comparability. EFRAG highlights that such presentation will involve significant judgement and needs to be tested in practice, including applicability to the separate financial statements

EFRAG TENTATIVE VIEWS

Analysis of operating expenses

- EFRAG is sympathetic towards 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 the users of financial statements**
- EFRAG highlights that such presentation will involve significant judgement and needs to be tested in practice.
- EFRAG is also seeking views on:
 - Whether it is useful to have disclosures by nature in single note when an entity assesses that presentation by function provides the most useful information
 - Whether it is useful to have in the statement of profit or loss:
 - (i) a strict presentation either by nature or by function (no mix); or
 - (ii) a general presentation by nature or by function together with limited additional requirements as suggested in the ED by the IASB; or
 - (iii) a mix presentation basis (no restrictions)

EFRAG TENTATIVE VIEWS

Aggregation and disaggregation

- EFRAG welcomes the IASB's efforts to improve the general requirements on disaggregation as a complement to the created additional subtotals in the statement of profit or loss as it improves clarity and consistency. EFRAG suggested only minor improvements

EBITDA

- It would have been useful to define EBIT and EBITDA as they are among the most used performance measures. However, as such measures have not been defined by the IASB, they should be included in the scope of the IASB's proposals regarding MPM disclosures

Other comprehensive income and other statements

- EFRAG does not consider that the IASB's proposals on OCI are a significant improvement as they simply modify the labelling of OCI item
- EFRAG considers that the IASB should consider in the future potential improvements to the statement of changes in equity, statement of cash flows and statement of financial position (e.g. definition of debt, a key metric for users of financial statements, and related disclosures)

EFRAG TENTATIVE VIEWS

Statement of Cash Flows

The newly created 3 categories in the statement of profit or loss are not aligned with the statement of cash flows, however, they have the similar labelling (operating, investing and financing): until IAS 7 is revised or in case the IASB decides to not align the two statements, it would be useful to **use different labelling from IAS 7 to avoid confusion for users**

EFRAG supports the IASB proposals but suggests the IASB to have a separate project on IAS 7 with the objective of

- having a comprehensive review of the challenges that arise in practice (e.g. financial institutions, supply-chain financing arrangements) and
- improve consistency with the new content and structure of the statement of profit or loss

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USER ROUND TABLE



Hans Buysse, Chairman ABAF/BVFA, member EFFAS Executive Management Committee and EFRAG Board member



Marietta Miemietz, Director, Primavenue Advisory Services Limited



Stefaan Genoe, Managing Partner Corporate Finance, Bank Degroof Petercam



Peter Malmqvist, Equity analyst, member of EFRAG User Panel



Q&A by Slido

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