

PRIMARY FINANCIAL STATEMENTS

FIELD TEST - CORPORATES

7 July 2020



OVERVIEW

OBJECTIVE OF THE FIELD TEST

NEW SUBTOTALS & CATEGORIES

INTEGRAL / NON-INTEGRAL

ANALYSIS OF EXPENSES

MANAGEMENT PERFORMANCE MEASURES

UNUSUAL

OTHER

STATEMENT OF CASH FLOWS



OBJECTIVE OF THE FIELD TEST

- The fieldwork is designed to provide the IASB with evidence of how:
 - how the proposals would be implemented in practice;
 - any need for further guidance; and
 - the extent of process or system changes that may be needed.

Resulting feedback will be a valuable resource to the IASB and EFRAG discussions on the project Primary Financial Statements

PARTICIPANTS

WORKSHOP - 7 JULY 2020 – 11H TO 14H (3H)

Company	Country	Industry
Eni Group	Italy	Energy
Welding Alloys Polska sp. z o. o	Poland	Industrial
SAP	Germany	IT
KWS	Germany	Agriculture
Vonovia	Germany	Real Estate



INCOME STATEMENT

NEW SUBTOTALS & CATEGORIES

BACKGROUND: QUESTIONS FROM THE QUESTIONNAIRES

- *What were the main changes to the structure of the income statement?*
- *Were the proposed requirements clear?*
- *Any significant judgements required?*
- *Were the proposed requirements clear when providing financing to customers or making investments?*
- *Were you able to separate the returns from investments made in the course of an entity's main business activities from those that are not?*
- *Is it difficult or costly to allocate income and expenses from financing activities and from cash and cash equivalents to those that do or do not relate to the provision of financing to customers?*
- *Is it difficult to track whether exchange differences relate to the entity's main business activities, investing activities or financing activities?*

NEW SUBTOTALS & CATEGORIES

KEY THEMES IDENTIFIED

- New subtotals and line items introduced in the financial statements, many not used before, and more disaggregation. However, different experiences:
 - proposed requirements for classification were clear.
 - need for more guidance for the classification of income and expenses within the new categories. More guidance on the:
 - meaning of ‘main business activity’ and ‘financing to customers’
 - definition of investing
 - classification of foreign exchange differences and hedging instruments (e.g. hedging instruments on intercompany and construction loans and foreign exchange differences arising from loans with subsidiaries). More examples could also help
 - classification of interest from extended payment terms to customers and other very specific line items (e.g. donations)

NEW SUBTOTALS & CATEGORIES

KEY THEMES IDENTIFIED

- Different experiences on level of judgement involved:
 - no significant judgements were required
 - high degree of judgement on the classification of gains and losses, particularly on hedging instruments and foreign exchange differences
- high degree of costs and work on the classification of gains and losses from hedging instruments and foreign exchange differences, which may outweigh the benefits for users
- presenting an operating, investing and financing category and materiality considerations
- cost reliefs welcomed (hedging instruments and entity providing financing to customers as main business activity)
- Improve consistency with the requirements in IAS 7 and consider labelling

NEW SUBTOTALS & CATEGORIES

POINTS FOR DISCUSSION

Clarity of requirements

- Those that did not need more guidance, please discuss what guidance was helpful
- Those that would want more guidance, please discuss what kind of guidance would be helpful for your company

Classification of hedging and forex

- Please discuss what was challenging and what changes could help

Materiality

- Please discuss how you considered materiality

Are there any other relevant points you would like to discuss?

INTEGRAL AND NON-INTEGRAL

BACKGROUND: QUESTIONS FROM THE QUESTIONNAIRES

- *Were the proposed requirements for classifying associates and joint ventures as integral or non-integral clear?*
- *Did you have all of the information required to apply the proposed requirements or was it easily obtained?*
- *What would need to change in your current systems or processes to obtain the required information on an ongoing basis*
- *Do you consider that the IASB needs to expand the new paragraph 20D of IFRS 12?*
- *What would need to change in your current systems or processes to obtain the required information on an ongoing basis?*
- *Do you anticipate a possible impact on governance processes other than on the reporting systems and processes?*

INTEGRAL AND NON-INTEGRAL

KEY THEMES IDENTIFIED

- The subtotal ‘operating profit or loss and income and expenses from integral associates and joint ventures’ is a new subtotal not used before
- Generally information needed was available (subject to judgements) and no system changes needed. All companies made a split, even if some presented line items with amounts equal or close to zero.
- Different experiences:
 - classification of integral and non-integral is often clear, all required information is available, low level of judgement
 - significant and professional judgements may be required
- Call for more guidance for the split - paragraph 20D of IFRS 12 could be expanded and more illustrative examples. For example:
 - the supplier or customer relationship is critical for the investor only – and for the investee?

INTEGRAL AND NON-INTEGRAL

POINTS FOR DISCUSSION

- Those that did not need more guidance to make split between integral and non-integral associates and joint ventures; please discuss what guidance was helpful in making the split and what judgements were you able to make in the process. Please comment on specific factors considered and on whether it was easier to classify joint ventures or associates. Are there any factors that could be useful which are not included in the Exposure Draft?
- Those that would want more guidance in paragraph 20D and more illustrative examples, please discuss what kind of indicators and examples would be helpful for your company and what kind of judgements could you not make in the absence of such additional guidance.
- In your opinion, to what extent can additional guidance help with judgement required?

Are there any other relevant points you would like to discuss?

ANALYSIS OF EXPENSES

BACKGROUND: QUESTIONS FROM THE QUESTIONNAIRES

- *Were the proposed requirements for the presentation and disclosures of an analysis of operating expenses clear?*
- *Were any significant judgements required in applying the proposed requirements?*
- *Did you have all of the information required to apply the proposed requirements or was it easily obtained?*
- *What, if anything, would need to change in your current systems or processes to obtain the required information on an ongoing basis?*

ANALYSIS OF EXPENSES

KEY THEMES IDENTIFIED

- No significant changes or concerns from those presenting operating expenses by nature
- Observations mainly related to presentation by function:
 - more guidance on the presentation by function (e.g. no clear definition of items such as 'cost of sales' and 'administrative expenses')
 - significant judgments on the allocation of some income and expenses by nature to the by function presentation (e.g. restructuring expenses and impairment losses)
 - high costs (IT systems & auditing) related to the disclosures of total operating expenses by nature when presenting by function on the face
 - duplication of some items as current IFRS Standards already require disclosures by nature (e.g. amortisation and depreciation)
 - more guidance on the use of the line item 'other expenses'
 - clarify link between paragraphs B46 and B15 of the ED

ANALYSIS OF EXPENSES

POINTS FOR DISCUSSION

- What kind of guidance would be helpful for determining functions?
- If you currently report by function, how do you classify restructuring expenses and impairment losses?
- What are main cost drivers for reporting expenses by nature when your primary method of analysis is by function? What system changes would be required? What kind of reliefs could be considered?
- What additional guidance on use of 'other expenses' could be helpful?

Are there any other relevant points you would like to discuss?



DISCLOSURES

MANAGEMENT PERFORMANCE MEASURES

BACKGROUND: QUESTIONS FROM THE QUESTIONNAIRES

- *Were the proposed definition and disclosure requirements for MPMs clear?*
- *Were any significant judgements required in identifying MPMs or providing the required disclosures?*
- *Were there any performance measures which you concluded did not to meet the definition of MPMS which required significant judgements?*
- *If you identified MPMs, which public communications were the source of your MPMs?*
- *Did you have all of the information required to apply the proposed requirements or was it easily obtained?*
- *What would need to change in your current systems or processes to obtain the required information on an ongoing basis?*
- *What is your assessment of the overall costs on the calculation of the income tax effect and the effect on non-controlling interests?*

MANAGEMENT PERFORMANCE MEASURES

KEY THEMES IDENTIFIED

General

- No significant issues in identifying MPMs which can be found in the notes, management commentary, presentation to analysts, guidance for the year and mid-term plan.
- All companies identified MPMs and companies disclosed one to three MPMs, with some disclosing other measures as well. Continued use of existing measures but revisiting some performance measures considering the new proposed subtotals.
- Information readily available, except for the effects of income tax and NCI

Definition

- Clarify what public communication is – more examples
- Interaction of MPMs with regulatory requirements given different scopes and disclosures
- Can information about other Non-GAAP measures be provided together with MPMs (eg working capital, return on equity, adjusted revenue)?

MANAGEMENT PERFORMANCE MEASURES

KEY THEMES IDENTIFIED

Presentation and disclosures

- When can MPMs be presented on the face
- MPMs disclosed in notes would no longer be included in management commentary
- Interaction between MPMs and IFRS 8 key segment numbers
- The computation of income tax effect can be complex, particularly when considering different tax jurisdictions and interim accounts – automatic computation of income tax effect is difficult even with the cost relief
- Computation of the non-controlling interest effect is burdensome
- Income tax and NCI effect particularly difficult for constant currency performance measures

MANAGEMENT PERFORMANCE MEASURES

POINTS FOR DISCUSSION

Definition

- How did the inclusion of public communications in the definition of MPMs affect your assessment of the non-GAAP measures you included? Where do you disclose non-GAAP measures currently? Are there measures currently disclosed you think would be captured by 'public communications' that should not be?

Labelling and disclosures

- How did you determine labels for MPMs, did you use the same labels as used for current APMs? Were requirements on labelling and faithful representation difficult to apply?
- Please explain challenges with providing tax and NCI information for reconciling items? Did you attempt to prepare these calculations?

Are there any other relevant points you would like to discuss?

UNUSUAL ITEMS

BACKGROUND: QUESTIONS FROM QUESTIONNAIRES

- *Were the proposed definition and disclosure requirements for unusual income and expenses clear?*
- *Were any significant judgements required in identifying unusual income and expenses or providing the required disclosures?*
- *Did you have all of the information required to apply the proposed requirements or was it easily obtained?*
- *What, if anything, would need to change in your current systems or processes to obtain the required information on an ongoing basis?*

UNUSUAL ITEMS

KEY THEMES IDENTIFIED

- Proposed requirements were often considered clear, all information available and no significant changes to the IT systems
- However, some concerns have been expressed:
 - definition would restrict the number of unusual items identified and, consequently, disclosures will have very limited added value.
 - difficult to apply in practice - significant degree of judgement and discretion involved in determining “future” occurrence of certain income and expenses
 - definition excludes income and expenses which are predictable for limited subsequent accounting periods (e.g. expenses caused by a restructuring program which takes two years).
- How unusual items would be monitored and considered by the auditors

UNUSUAL ITEMS

POINTS FOR DISCUSSION

- For those that thought the definition of unusual income and expenses was difficult to apply in practice, what additional guidance would be helpful in making the required judgements?
- For those that found the requirements clear, could you share how you approached the judgements required?
- For companies that currently disclose unusual items (or an equivalent e.g. non-recurring, not indicative of future performance etc.) can you share how you identify these items and how the process would need to differ for the proposed definition?

Are there any other relevant points you would like to discuss?



OTHERS

AGGREGATION AND DISAGGREGATION – GENERAL GUIDANCE

BACKGROUND: QUESTIONS FROM QUESTIONNAIRES

- *Was the additional proposed guidance on the roles of the financial statements and aggregation and disaggregation clear?*
- *Were any significant judgements required in aggregating or disaggregating information presented in the primary financial statements or disclosed in the notes?*
- *Did your approach to, or the level of, aggregation and disaggregation of information in the financial statements change as a result of the proposed guidance?*
- *Did you have all of the information required to apply the proposed requirements or was it easily obtained?*
- *What, if anything, would need to change in your current systems or processes to obtain the required information on an ongoing basis?*

AGGREGATION AND DISAGGREGATION

KEY THEMES IDENTIFIED

- Information was generally available but mixed experiences:
 - Low level of judgement in many cases – “judgements were required in so far that the proposed income statement scheme and the ideas of the ED needed to be adopted to the business mode”
 - Aggregating and disaggregating will always be very judgemental
- question on how this guidance is compliant with what has been recently validated by IFRIC for instance on IFRIC 23 uncertain tax position presentation in the statement of financial position
- no significant changes have been identified

AGGREGATION AND DISAGGREGATION

POINTS FOR DISCUSSION

- What additional guidance would you find helpful for aggregation and disaggregation?
- Do you disagree with any of the proposed guidance for aggregation and disaggregation?
- How do you currently approach aggregation and disaggregation and do you have challenges with applying the current guidance?

Are there any other relevant points you would like to discuss?



STATEMENT OF CASH FLOWS

STATEMENT OF CASH FLOWS

KEY THEMES IDENTIFIED

- Most did not note any challenges in applying the proposals for the statement of cash flows.
- Some unclear on classification of interest received/paid when some financing classified as operating in the statement of profit or loss.
- Loss of comparability with US competitors for interest and dividends
- Possible confusion over differences between categories in the statement of profit and loss

STATEMENT OF CASH FLOWS

POINTS FOR DISCUSSION

- Were there any challenges applying the proposals for the statement of cash flows?
- Would different labelling of the categories in the statement of profit or loss resolve possible confusion over the categories in the statement of cash flows? Are there suggestions for how to address the issue?

Are there any other relevant points you would like to discuss?



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THANK YOU

EFRAG
Aisbl - ivzw
35 Square de Meeüs
B-1000 Brussel
Tel. +32 (0)2 210 44 00
www.efrag.org

