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## **Primary Financial Statements Cover Note**

### **Objective and agenda papers**

- 1 The objective of the session is to have EFRAG CFSS-TEG members' views as preparation for the forthcoming ASAF meeting on:
  - (a) the structure of the forthcoming IASB Exposure Draft on *Primary Financial Statements*; and
  - (b) topics of interest for future outreach events and possible opportunities to discuss this project.
- 2 In addition to this cover note, agenda papers for this session are:
  - (a) Agenda paper 08-02 - AP4 ASAF Structuring Standard(s) and Outreach Plan – for background only;
  - (b) Agenda paper 08-03 - AP4A ASAF Summary of tentative decisions – for background only; and
  - (c) Agenda paper 08-04 - IASB presentation to CMAC and GPF June 2019 – for background only. This paper provides a simplified summary of the IASB's tentative decisions.

### **Background**

- 3 In its *Primary Financial Statements* project, the IASB is considering possible changes to the structure and content of the primary financial statements, particularly the statement of financial performance. This project is a part of the IASB's response to investors' demand for the IASB to undertake a project on performance reporting and is a part of the IASB's *Better Communication in Financial Reporting* initiative.
- 4 The EFRAG Secretariat has provided updates to EFRAG TEG-CFSS members on several occasions. In November 2018, EFRAG TEG-CFSS members received an overview of the IASB's tentative decisions and discussed the following topics:
  - (a) Presenting subtotals in the statement of profit or loss;
  - (b) Disclosures of management performance measures; and
  - (c) Improving disaggregation.
- 5 Subsequently, the IASB made the following tentative decisions:
  - (a) **statement of financial performance:** to refine the scope of subtotals for entities that provide financing to customers as a main business activity and entities that make investments in the course of their main business activities (IASB meeting in February and April 2019);

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- (b) **statement of cash flows:** to refine the classification of dividends/interest paid and received for entities that provide financing to customers as a main business activity and entities that make investments in the course of their main business activities (IASB meeting February 2019);
  - (c) **aggregation and disaggregation:** to develop additional proposals, including requiring new minimum line items, defining unusual items and requiring new disclosures on unusual items (IASB meeting February and March 2019);
  - (d) **management performance measures:** to further clarify its previous tentative decisions (IASB meeting April 2019).
- 6 In May 2019, the IASB decided to publish an Exposure Draft by the end of the year seeking feedback on proposals in the *Primary Financial Statements* project.

### **Structuring the new requirements**

- 7 The IASB is currently considering how it can best structure the new requirements and has identified three possible approaches:
- (a) **Approach 1:** withdraw IAS 1 *Presentation of Financial Statements* and replace it with a new Standard (although not all the requirements in IAS 1 would be affected by the IASB's proposals);
  - (b) **Approach 2:** amend IAS 1 to remove requirements related to the structure and content of primary financial statements and disaggregation (which are likely to be significantly affected by the IASB's proposals) and include them in a new IFRS Standard; and
  - (c) **Approach 3:** amend IAS 1 without developing a new Standard (adding or deleting some paragraphs but the basic structure of IAS 1 would be retained)
- 8 Paragraphs 10 to 15 of agenda paper 08-02 refers to the pros and cons of each approach. For example, it refers to:
- (a) the possibility of restructuring and improving in general the drafting of IAS 1 if it is replaced by a single IFRS Standard;
  - (b) the difficulties of identifying which parts of IAS 1 would change and timing considerations if IAS 1 is replaced by a single IFRS Standard; and
  - (c) the challenges of splitting IAS 1 into two standards.
- 9 The IASB Staff did not have a preferred approach but did not support approach 3 as the IASB proposals would substantially change the requirements in IAS 1 and its Basis for Conclusions.

### *EFRAG Secretariat analysis*

- 10 After considering the provided pros and cons of the different approaches, the EFRAG Secretariat prefers Approach 1 i.e. the development of a new IFRS Standard. The EFRAG Secretariat considers that this approach would have the benefit of:
- (a) giving more prominence to the IASB proposals on this project;
  - (b) maintaining all the existing requirements included in IAS 1 in a single standard and providing a better overview of the improvements to presentation of financial statements;
  - (c) giving the IASB the possibility of restructuring and improving in general the current drafting of IAS 1, including taxonomy considerations; and
  - (d) giving the IASB the possibility of integrating the existing interpretations on IAS 1, clarifications from IFRS IC and the requirements in IAS 7 *Statement of Cash Flows* into the new IFRS Standard.

- 11 If the IASB decides to undertake this approach, then the EFRAG Secretariat considers that the ED should encompass a complete review of IAS 1 with the proposed changes well identified. The EFRAG Secretariat also considers that the IASB should liaise with the team members of other projects related to IAS 1 (e.g. “classification of liabilities as current and non-current”) with the objective of having a single comprehensive review of IAS 1 resulting in a new IFRS Standard.
- 12 The EFRAG Secretariat acknowledges the benefits highlighted by the IASB Staff of moving parts of IAS 1 to a new Standard (Approach 2). However, EFRAG Secretariat considers that such an approach would risk raising a wide debate on what should be included in the new Standard and what should be retained in IAS 1.
- 13 In addition, such a split may be difficult due to interactions between the different sections of IAS 1. For example, according to the IASB Staff suggestion included in Table B1 of agenda paper 08-02, both the new Standard and an amended IAS 1 would include sections on the objective, scope and definitions even if both focused on the basis for presentation of financial statements.

**Questions for EFRAG TEG-CFSS**

- 14 What are the EFRAG TEG-CFSS members’ views on the approaches described in paragraph 7? Has the IASB correctly identified advantages and disadvantages of Approaches 1 and 2 in paragraphs 12 to 15 of agenda paper 08-02?
- 15 Are there any alternative approaches that the IASB should consider?

**Outreach plan**

- 16 To help the IASB preparing future outreach activities, the IASB Staff is asking advice on topics of interest for future outreach events and possible opportunities to discuss this project.

*EFRAG Secretariat analysis*

- 17 As in other major reviews of IFRS Standards, the EFRAG Secretariat plans to undertake an extensive outreach program, to collect European constituents’ views.
- 18 Nonetheless, considering that the IASB is proposing a significant change to content and structure of financial statements, the EFRAG Secretariat considers that field-tests with preparers during the IASB consultation period would be beneficial.

**Questions for EFRAG TEG-CFSS**

- 19 What are the EFRAG TEG-CFSS members’ views on:
  - (a) project topics, if any, that are likely to be of particular interest to stakeholders in your jurisdiction; and
  - (b) any events that could be used as an opportunity to discuss the project with stakeholders in your jurisdiction?