PRIMARY FINANCIAL STATEMENTS

FIELD TEST – FINANCIAL INSTITUTIONS

7 July 2020

EFRAG
European Financial Reporting Advisory Group

IFRS®

OVERVIEW

OBJECTIVE OF THE FIELD TEST

NEW SUBTOTALS & CATEGORIES

INTEGRAL / NON-INTEGRAL

ANALYSIS OF EXPENSES

MANAGEMENT PERFORMANCE MEASURES

UNUSUAL ITEMS

OBJECTIVE OF THE FIELD TEST

- The fieldwork is designed to provide the IASB with evidence of:
  - 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 Primary Financial Statements project

PARTICIPANTS

FINANCIAL INSTITUTIONS

Company	Country	Industry
Erste Group	Austria	Bank
CaixaBank	Spain	Financial Conglomerate
Allianz Group’s	Germany	Insurance
Alpha Bank	Greek	Bank

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

Classification

- Not much change to presentation in the statement of profit or loss, with very little presented outside operating profit; some expressed concerns about usefulness of such measure and question the value of such structure for financial entities
- Some report costs to identify derivatives used to manage net risk positions that are not in hedging relationships, also questions around default classification of such derivatives as investing.
- No one seems to have classified income and expenses from investments in the investing category, except from those that have non-integral associates and JVs. Some think that going through individual investments to determine if in course of main business activities would be costly.
- Some express desire for more guidance for structure of statement of profit or loss for financial conglomerates.
- Some expressed concern about mandatory templates being different to the proposed structure, others not concerned.
- Not fully implemented IFRS 9 and IFRS 17.

NEW SUBTOTALS & CATEGORIES

KEY THEMES IDENTIFIED

Main business activities and accounting policy choice

- Main business activities clear but expect other companies may need more guidance.
- Most exercised accounting policy choice to move all expenses from financing to operating category, some made split; some question whether free choice should be given.

NEW SUBTOTALS & CATEGORIES

POINTS FOR DISCUSSION

Classification

- For those of you who think the result of fieldwork where most income and expenses are in the operating profit is unhelpful, please explain why? What kind of income and expenses in your company would you separate from operating?
- For those of you that have derivatives managing net risk positions, did you ultimately classify them as investing or operating? Please explain the process. Please also explain costs associated with identifying such contracts.

Accounting policy choice

- Those of you that have split expenses from financing relating to the provision of finance to customers, how did you make the split?
- Those of you that have exercised accounting policy choice to move all expenses from financing to operating, if you needed to prove undue cost and effort of separating expenses from financing that relate to provision of finance to customers, would this have been costly?

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?*
- *Do you anticipate a possible impact on governance processes other than on the reporting systems and processes?*

INTEGRAL AND NON-INTEGRAL

KEY THEMES IDENTIFIED

- Some classified all associates and JVs as integral, some classified none, some made a split between integral and non-integral, and for some such investments are immaterial.
- Some think guidance not appropriate as some investments which are viewed as integral do not meet the indicators, with suggestion made that when associates have the same operating activities, they should be considered integral.
- Some think additional guidance needed, with suggestions made eg i) setting indicators on how a ‘return is generated individually and largely independently of the other assets of the entity’ and ii) on common types of associates or JV’s
- The assessments required to distinguish between integral and non-integral associates / JVs require a high degree of judgment resulting in inconsistent application.
- Questions about assessment at sub-group level, compared to at consolidated level.

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
- To what extent can additional guidance help with judgement required?
- Those of you who disagree with the definition, why do you think it does not work and what alternative could be considered?

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

ANALYSIS OF EXPENSES

BACKGROUND: KEY QUESTIONS FROM 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

- Concerns around comparability (eg net interest income and insurance service result) due to different transaction costs allocations permitted by IFRS Standards
- Questions whether functional line item for administrative expenses could be permitted for entities reporting by nature
- Hard for conglomerates to identify the most useful method of analysis; general question about application by conglomerates (for example banking by nature and insurance by function)
- Questions about functional presentation by insurers and what functions should there be; should cost of sales be required for insurers
- Question whether analysis by nature is required for minimum line items that are presented by function
- Analysis by nature for those reporting by function not possible without system changes

ANALYSIS OF EXPENSES

POINTS FOR DISCUSSION

- Generally no change in line items presented as a result of the proposed guidance but lots of questions on application; please discuss how guidance could be improved in the case of your company

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

DISCLOSURES

MANAGEMENT PERFORMANCE MEASURES

KEY QUESTIONS FROM 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

Definition

- Generally straightforward to identify MPMs, with up to four measures identified, information readily available, except for tax and NCI
- Concerns that MPMs only capture a subset of APMs

Tax and NCI

- The costs to calculate the income tax effect and the effect of non-controlling interests for adjustments made in calculating MPMs are significant
- Some expect that pro rata allocation may not be reasonable and that another method would be needed.
- Further guidance needed regarding what a ‘reasonable pro rata allocation’ is as well as what types of analyses the IASB would expect by entities to determine a ‘reasonable pro rata allocation’.
- Questions on usefulness of tax and NCI information for individual adjustments

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?
- Please explain any judgements you had to make in deciding whether a measure meets the definition of MPMs.

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

KEY THEMES IDENTIFIED

- Some identified no unusual income or expenses, and some had a few items; one reason for few items is that many items thought of as unusual do not meet definition as arise in two reporting periods.
- Information needed generally available, note prepared manually
- Several requests for more guidance and clarification of judgements including:
    - In the context of COVID-19, both changes in the fair value of financial asset measured at FV-PL and changes in ECL of amortised costs loans and advances due to the COVID-19 are considered (or part of them) as unusual items.
    - The expression ‘do not arise for several future annual reporting periods’ will require significant judgement.
    - Clarification needed with respect to the question whether income and expenses are not expected by type and amount (or either by type or amount as suggested in BC131 of the ED) to recur in the future as well as with respect to the question of how many future reporting periods shall be taken into account in this assessment.

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?

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

COST RELIEF AND OTHERS

AGGREGATION AND DISAGGREGATION – GENERAL GUIDANCE

KEY 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

- No major issues identified in relation to general guidance on aggregation and disaggregation
- Changes to items currently described as ‘other’ may be needed, but not done as a part of fieldwork exercise as requires system changes

POINTS FOR DISCUSSION

- Do you have suggestions for improvements to the general disaggregation guidance?

Are there any other relevant points you would like to discuss, including relating to the statement of cash flows?

EFRAG receives financial support of the European Union - DG Financial Stability, Financial Services and Capital Markets Union. The content of this presentation is the sole responsibility of EFRAG and can under no circumstances be regarded as reflecting the position of the European Union.

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