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**Mr. Hans Hoogervorst, IASB Chairman**

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London  
E14 4HD, UK

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Via email: [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

Madrid, September 29<sup>th</sup> 2020

Dear Mr Hoogervorst,

**Re: IASB ED/2019/7 *General Presentation and Disclosures***

On behalf of the Commission on Financial & ESG Reporting of the Spanish Institute of Financial Analysts (hereinafter, “IEAF” or “We”), I am writing to comment on Exposure Draft *General Presentation and Disclosures (Primary Financial Statements)*, issued by the IASB on 17 December 2019 (hereinafter, the “ED”).

We welcome that the IASB focused on improving how information is communicated in the financial statements. As users of the financial information prepared by companies, we acknowledge that this project is a very important step to harmonize the structure and content of the statement of financial performance in order to avoid that the primary financial statements could vary even among companies throughout the same industry and, as a result, to improve the ability of users of financial statements to compare the financial performance of different companies or across different industries.

Therefore, we supports the IASB’s efforts to improve the structure and content of primary financial statements, particularly on the statement of profit or loss, while also allowing management to convey its views of a company’s financial performance.

Nevertheless, as we will detail in the responses to the specific questions as follows, we consider certain terms could be clarified on the draft and a harmonised review between the different standards should be taken into account. For example, operating profit or loss subtotal, the labelling of certain categories jointly to IAS 7 (cash flow statement), IFRS 8 Operating segment etc.



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Moreover, the implications on the management performance measures or on the amounts for the prior years to be restated for the first period of implementation should be also taken into account.

If you would like to further discuss the views expressed in this letter, please do not hesitate to contact us via email: [frc@ieaf.es](mailto:frc@ieaf.es)

/s/ Gregorio P. Gil, Chairman

On behalf of IEAF Commission on Financial & ESG Reporting

## Summary of IEAF's points of view on the ED

From the point of view as users of financial information, as wider breakdown as better to allow users to make their own assessment on the company financial performance and position.

We recognize the definition of "Operating activities" should be clearer by the companies. But we understand the definition of the "main operating activities" as a residual term other than financing or investing activities should be clarified.

## Response to ED questions

**Question 1—operating profit or loss Paragraph 60(a) of the Exposure Draft proposes that all entities present in the statement of profit or loss a subtotal for operating profit or loss. Paragraph BC53 of the Basis for Conclusions describes the Board's reasons for this proposal. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?**

### IEAF Response to Question 1:

*We support the IASB's efforts to define and require the subtotal 'operating profit or loss' as it is one of the most used subtotals and currently there is a lack of consistency in its use, labelling and definition.*

**Question 2—the operating category Paragraph 46 of the Exposure Draft proposes that entities classify in the operating category all income and expenses not classified in the other categories, such as the investing category or the financing category. Paragraphs BC54–BC57 of the Basis for Conclusions describe the Board's reasons for this proposal. Do you agree with this proposal? Why or why not? If not, what alternative approach would you suggest and why?**

**Question 3—the operating category: income and expenses from investments made in the course of an entity's main business activities Paragraph 48 of the Exposure Draft proposes that an entity classifies in the operating category income and expenses from investments made in the course of the entity's main business activities. Paragraphs BC58–BC61 of the Basis for Conclusions describe the Board's reasons for this proposal. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?**

### IEAF Response to Questions 2 and 3:

*We agree but it should clearly be stated a definition of the results achieved by company's core and recurrent operations. Each company should disclose by its footnotes to the financial statements any non-recurrent or doubtful item/s to be considered main activities or not, and we consider the bigger disaggregation, the better.*



*An additional line item including the results generated by extraordinary or one-off transactions should be disclosed and not included in operating profit, investment profit or financing result line items.*

**Question 4—the operating category: an entity that provides financing to customers as a main business activity Paragraph 51 of the Exposure Draft proposes that an entity that provides financing to customers as a main business activity classify in the operating category either:**

- income and expenses from financing activities, and from cash and cash equivalents that relate to the provision of financing to customers; or
- all income and expenses from financing activities and all income and expenses from cash and cash equivalents. Paragraphs BC62–BC69 of the Basis for Conclusions describe the Board’s reasons for the proposals.

**Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?**

#### **IEAF Response to Question 4:**

*Some users considered that this would be confusing and could be misleading and questioned whether the categories could be aligned; and the classification of cash and cash equivalents may depend on its use. For example, if it is cash and cash equivalents allocated to working capital (cash and cash equivalents used for operating needs), then any related income and expenses should be within operating profit. If it is large cash balances in excess of their operating needs, then income and expenses should be within financing category (i.e. linked to net debt). It was also noted that there may be some restrictions on the use of cash and cash equivalents (e.g. restrictions imposed by banks).*

**Question 5—the investing category Paragraphs 47–48 of the Exposure Draft propose that an entity classifies in the investing category income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources held by the entity, unless they are investments made in the course of the entity’s main business activities. Paragraphs BC48–BC52 of the Basis for Conclusions describe the Board’s reasons for the proposal. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?**

#### **IEAF Response to Question 5:**

*Some users find it difficult to clearly understand this proposal. It is clearer the current category of results from Equity method consolidated subsidiaries or investments. If these subsidiaries are doing the same core activity of the parent company, this results from them should be reports in the operating profits in a separate line, as some companies are doing already. Users would only include the part of the results of the equity consolidated subsidiary not the revenues and expenses.*

*Additionally, we should note our concern regarding Incremental expenses. A better explanation is needed.*



**Question 6—profit or loss before financing and income tax and the financing category (a) Paragraphs 60(c) and 64 of the Exposure Draft propose that all entities, except for some specified entities (see paragraph 64 of the Exposure Draft), present a profit or loss before financing and income tax subtotal in the statement of profit or loss (b) Paragraph 49 of the Exposure Draft proposes which income and expenses an entity classifies in the financing category. Paragraphs BC33–BC45 of the Basis for Conclusions describe the Board’s reasons for the proposals. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?**

**IEAF Response to Question 6:**

*We agree if the proposal refers to include in one line time all the results coming from core, operating activities both from the parent company and from the subsidiaries, before financing results and before taxes.*

**Question 7—integral and non-integral associates and joint ventures (a) The proposed new paragraphs 20A–20D of IFRS 12 would define ‘integral associates and joint ventures’ and ‘non-integral associates and joint ventures’; and require an entity to identify them. (b) Paragraph 60(b) of the Exposure Draft proposes to require that an entity present in the statement of profit or loss a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures. (c) Paragraphs 53, 75(a) and 82(g)–82(h) of the Exposure Draft, the proposed new paragraph 38A of IAS 7 and the proposed new paragraph 20E of IFRS 12 would require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures. Paragraphs BC77–BC89 and BC205–BC213 of the Basis for Conclusions describe the Board’s reasons for these proposals and discuss approaches that were considered but rejected by the Board. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?**

**IEAF Response to Question 7:**

*We agree the distinction between integral and non-integral provided useful information but suggested that such information could be provided in the disclosures on the notes to the financial statements. The IASB proposals to separately present a separate subtotal on integral associates and joint ventures may raise questions and confusion due to the distinction between Integral or Non-integral items seems very subjective (change with management change).*

**Question 8—roles of the primary financial statements and the notes, aggregation and disaggregation (a) Paragraphs 20–21 of the Exposure Draft set out the proposed description of the roles of the primary financial statements and the notes. (b) Paragraphs 25–28 and B5–B15 of the Exposure Draft set out proposals for principles and general requirements on the aggregation and disaggregation of information. Paragraphs BC19–BC27 of the Basis for Conclusions describe the Board’s reasons for these proposals. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?**

#### **IEAF Response to Question 8:**

*We agree the description of the role of the primary financial statements. Users need homogeneous, consistent and a comparable set of financial information. But the mention to “not obscure relevant information” that is included in the paragraph 25 (c), allows for a subjective degree of interpretation by companies about what is relevant or not. It should be considered to establish a given level of weight on assets to report separately.*

**Question 9—analysis of operating expenses Paragraphs 68 and B45 of the Exposure Draft propose requirements and application guidance to help an entity to decide whether to present its operating expenses using the nature of expense method or the function of expense method of analysis. Paragraph 72 of the Exposure Draft proposes requiring an entity that provides an analysis of its operating expenses by function in the statement of profit or loss to provide an analysis using the nature of expense method in the notes. Paragraphs BC109–BC114 of the Basis for Conclusions describe the Board’s reasons for the proposals. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?**

#### **IEAF Response to Question 9:**

*We consider both approaches are useful although companies usually report by nature in Spain.*

*However, we consider it should be also required a breakdown of income by business lines and on a same business structure basis, a breakdown of operating costs by nature or by function, whatever the information appears in the Financial Statements or in the notes. Additionally, it may disclose a reconciliation between the two categories (nature and function) if amounts are relevant.*

*If any of the three elements is missing (income from business lines and costs by nature or function, and the mentioned reconciliation), the valuation cannot be achieved and the effort to dispose of it will have been useless. The final objective should not be lost sight of: to allow analysts and the market to arrive at valuations by business lines what is critical for a correct formation of prices in the market. If this is not done, the natural tendency will be to penalize the assessments for lack of information.*

*In order to set up a simple approach, our proposal could be as follows: It should be required to report the expenses clearly by nature in order to avoid companies inside the same industry could choose in different ways and the information was not comparable. On the other hand,*

*we consider it should be required to disclose a reconciliation by function in the notes to the financial statements with the objective of making easier to users of financial information (analysts, managers and the market as a whole) to assess a company by business lines.*

*The alignment between ED and IFRS 8 Operating Segments requirements may help.*

**Question 10—unusual income and expenses (a) Paragraph 100 of the Exposure Draft introduces a definition of ‘unusual income and expenses’. (b) Paragraph 101 of the Exposure Draft proposes to require all entities to disclose unusual income and expenses in a single note. (c) Paragraphs B67–B75 of the Exposure Draft propose application guidance to help an entity to identify its unusual income and expenses. (d) Paragraphs 101(a)–101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses. Paragraphs BC122–BC144 of the Basis for Conclusions describe the Board’s reasons for the proposals and discuss approaches that were considered but rejected by the Board. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?**

#### **IEAF Response to Question 10:**

*We agree a clearer reporting, explanation and disclosure of unusual items have to be included in a specific disclose by the notes to the financial statements. Company should disclose by its footnotes to the financial statements any non-recurrent or unusual items, as much disaggregation, as better. The "Extraordinary results" line item on the statement of profit or loss could be allowed to be disclosed.*

**Question 11—management performance measures (a) Paragraph 103 of the Exposure Draft proposes a definition of ‘management performance measures’. (b) Paragraph 106 of the Exposure Draft proposes requiring an entity to disclose in a single note information about its management performance measures. (c) Paragraphs 106(a)–106(d) of the Exposure Draft propose what information an entity would be required to disclose about its management performance measures. Paragraphs BC145–BC180 of the Basis for Conclusions describe the Board’s reasons for the proposals and discuss approaches that were considered but rejected by the Board. Do you agree that information about management performance measures as defined by the Board should be included in the financial statements? Why or why not? Do you agree with the proposed disclosure requirements for management performance measures? Why or why not? If not, what alternative disclosures would you suggest and why?**

#### **IEAF Response to Question 11:**

*In general, we welcomed the IASB proposals on Management Performance Measures and unusual items and called for this information to be presented also by operating business segment (IFRS 8 Operating Segments).*

*We agree a clear definition of management performance measures have to be included in a specific note or annexed in the financial reporting and a reconciliation to financial statements should be disclosed by company as wider breakdown as better. Currently, only SEC Non-GAAP*

*or ESMA APMs are mandatory for Management Performance Measures outside of the main financial statements.*

*In any case, a reconciliation to the financial statements should be disclosed.*

*We believe, if the company considers those performance measures as KPI the company should disclosed how those performance measures are linked to executives' remuneration scheme.*

**Question 12—EBITDA Paragraphs BC172–BC173 of the Basis for Conclusions explain why the Board has not proposed requirements relating to EBITDA. Do you agree? Why or why not? If not, what alternative approach would you suggest and why?**

#### **IEAF Response to Question 12:**

*We consider EBITDA is a very convenient financial measure and is broadly used. In fact it was introduced as a way to have a kind of operating cash flow (before working capital, Capex and taxes) that eliminate the different approach of the companies regarding the amortization and depreciation. It is very important to take into account that this cash flow concept has been affected by the IFRS 16 implementation due to the fact that currently depreciation accounting is mixed with cash rental payments. We agree the aim of the IFRS 16 of disclosing the value of future rental obligations in the liabilities of the companies but due to the consequences of the accounting of the rental payments as depreciation, IFR16 cash flow effect disclosures become crucial for the users of the statement of profit or loss. In conclusion, the board should provide with a standard definition of EBITDA before nor operational results and before exceptional issues.*

*If possible, EBITDA should be stated as it used in many rule-of-thumb multiples for business valuation.*

*In any case, a reconciliation to the financial statements should be disclosed.*

*We highlight the importance of having information by operating business segments (not only for the reporting as a whole) for users to be able to estimate future cash flows.*

**Question 13—statement of cash flows (a) The proposed amendment to paragraph 18(b) of IAS 7 would require operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities. (b) The proposed new paragraphs 33A and 34A–34D of IAS 7 would specify the classification of interest and dividend cash flows. Paragraphs BC185–BC208 of the Basis for Conclusions describe the Board's reasons for the proposals and discusses approaches that were considered but rejected by the Board. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?**

#### **IEAF Response to Question 13:**

*We agree a well-defined operating profit should be the starting point of the cash-flows from operating activities line item, but jointly to the addition of the depreciation and amortization should be also a standardised EBITDA.*





*We note that both the statement of financial performance and the statement of cash flows will have three different categories with similar labelling (operating, investing and financing) even if they are not aligned. Some users considered that this would be confusing and could be misleading and questioned whether the categories could be aligned; and the classification of cash and cash equivalents may depend on its use. For example, if it is cash and cash equivalents allocated to working capital (cash and cash equivalents used for operating needs), then any related income and expenses should be within operating profit. If it is large cash balances in excess of their operating needs, then income and expenses should be within financing category (i.e. linked to net debt). It was also noted that there may be some restrictions on the use of cash and cash equivalents (e.g. restrictions imposed by banks).*

*We noticed users have always expressed a strong preference for indirect method vs direct method.*

**Question 14—other comments Do you have any other comments on the proposals in the Exposure Draft, including the analysis of the effects (paragraphs BC232–BC312 of the Basis for Conclusions, including Appendix) and Illustrative Examples accompanying the Exposure Draft?**

**IEAF Response to Question 14:**

*No comments.*

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