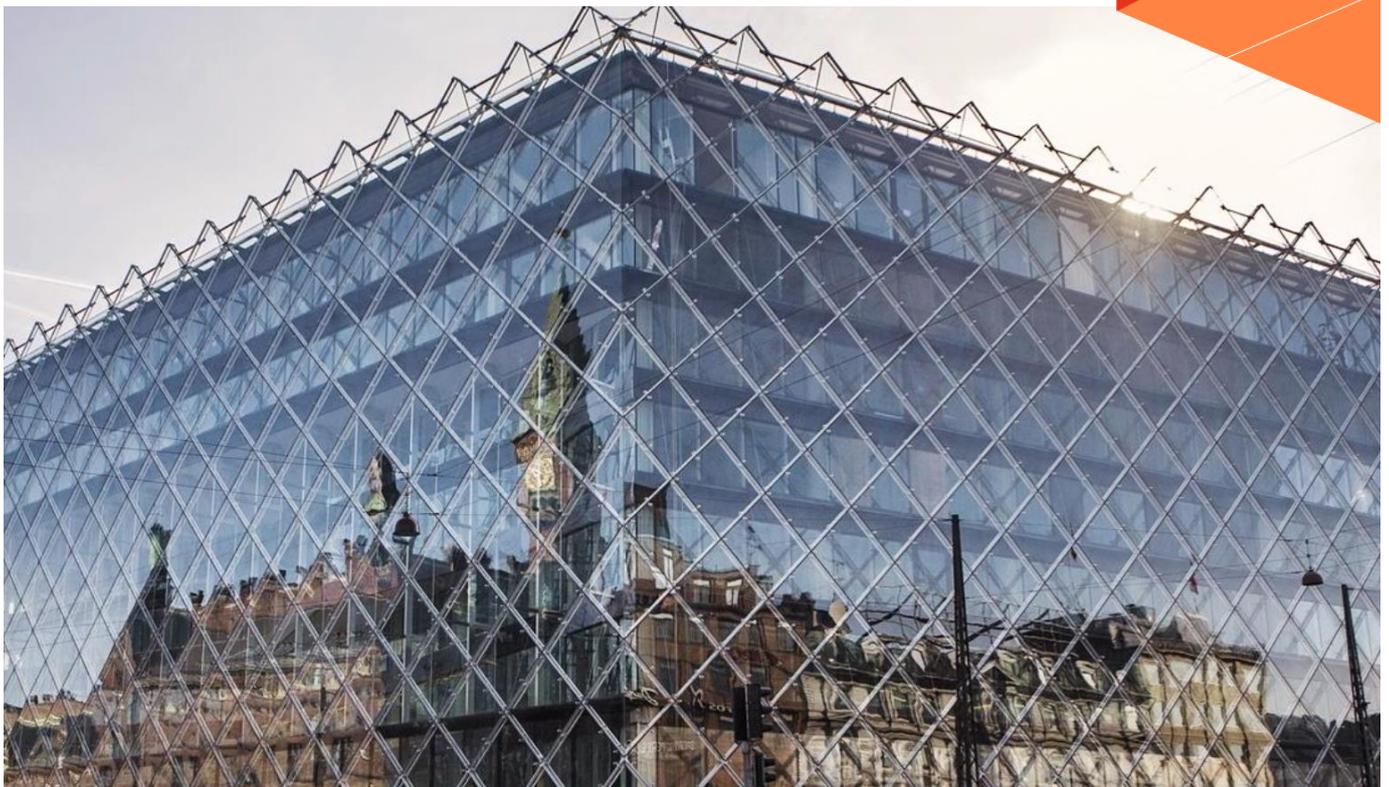


# PRIMARY FINANCIAL STATEMENTS SUMMARY REPORT

Joint outreach online event 14 May 2020



## Introduction

In order to receive input from Danish and other constituents and to stimulate the discussion around the IASB® Exposure Draft on *General Presentation and Disclosures* ('the ED'), EFRAG, the Confederation of Danish Industry (DI), FSR – Danish Auditors (FSR) and the IASB arranged a joint outreach online event on 14 May 2020. This report has been prepared for the convenience of European constituents to summarise the event and will be further considered by the involved organisations in the respective due process on the IASB proposal.

The program of the event can be consulted [here](#) and the speaker's bio's – [here](#).

Kristian Koktvedgaard from the Confederation of Danish Industry and Torben Johansen from FSR – Danish Auditors welcomed participants.

The event focused on 5 topical issues and for each of them the IASB representatives introduced the proposals, the EFRAG Chairwoman presented EFRAG preliminary position and the preparer panellists provided their views. The following Danish preparers participated to the discussion: **Tina Aggerholm**, from Carlsberg, brewing company; **Nicolai Caroe** from Orsted, energy company and **David Vestengen Hopkins** from, Novo Nordisk, pharmaceutical company.

The participants provided their views on the proposals as illustrated below and asked questions to the IASB representatives or to the preparers (below reported as "SLIDO Q&A").

### *IASB introduction to its Exposure Draft General Presentation and Disclosures*

Aida Vatrejak, IASB Technical Staff, presented [an overview](#) of the IASB project *Primary Financial Statements* ('PFS'). In particular, Aida Vatrejak explained that this project was a part of the IASB work on having *Better Communication in Financial Reporting* and a result of the 2015 Agenda Consultation where many users of financial statements stated that performance reporting should be a priority. The IASB discussions on this project started early in 2016 and in December 2019 the IASB had published the ED with a comment period ending on 30 September 2020. The comment period was prolonged by 3 months because of COVID-19 to give more time for discussions and feedback and to conduct field testing.

Aida Vatrejak explained that the overall objective of the project was to improve the structure and content of primary financial statements with particular focus on the statement of profit or loss and with only limited changes to the statement of cash flows. The IASB wanted also to improve the transparency and discipline on the use of management-defined performance measures.

Aida Vatrejak noted that the ultimate objective was to replace IAS 1 *Presentation of Financial Statements* with a new IFRS standard that would include new guidance on the structure and content of PFS, retained guidance from IAS 1, subject to some improvements and clarifications. In addition, some of the existing requirements would be moved from IAS 1 to other IFRS Standards. The IASB would also amend a number of other IFRS Standards such as IAS 7, IAS 33, IAS 34 and IFRS 12 as a result of this project.

### *EFRAG introduction to its Draft Comment Letter in response to the IASB ED*

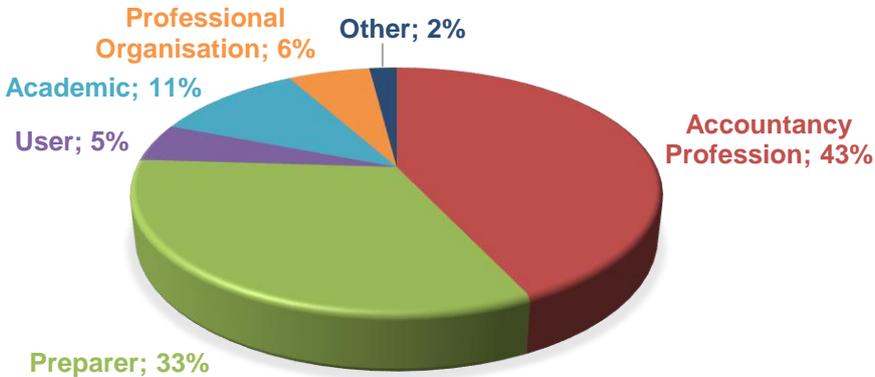
Chiara Del Prete, EFRAG TEG Chairwoman, presented [EFRAG draft comment letter](#) ('the DCL') in response to the IASB ED. She explained that EFRAG had published its DCL on 24 February 2020, including the results of the *Early Stage Analysis* and that the responses from constituents would be welcomed by 28 September 2020. Chiara Del Prete added that as a part of its work on this project, EFRAG was currently organising a number of joint online outreach events with European and national organisations, National Standard Setters and the IASB aimed at different types of European

stakeholders and a field test with preparers in coordination with National Standard Setters in Europe and the IASB. This event was the first of a series of events.

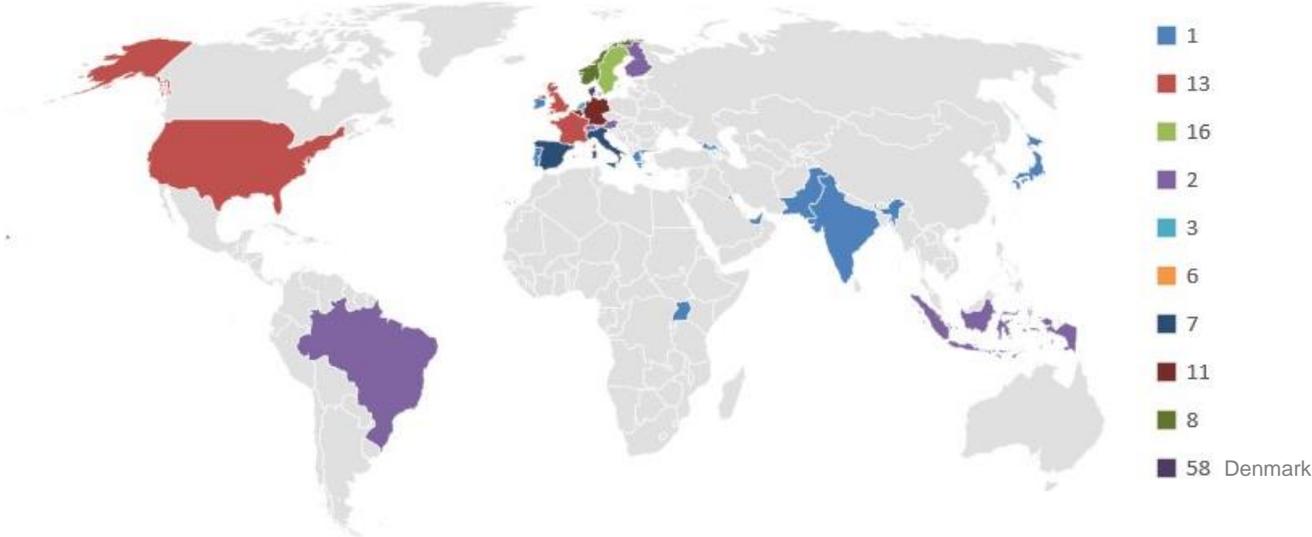
Chiara Del Prete provided an overview of EFRAG preliminary position exposed for comments in the DCL, which welcomed the IASB proposals on improving how information is communicated in the financial statements, as it responded to a strong demand from users to improve the structure and content of the primary financial statements. She also highlighted that EFRAG had made a number of suggestions and was asking for views of its constituents for specific topics, including some of the IASB proposals for which EFRAG did not yet form a view and will assess the constituents' feedback before taking a position in the final comment letter.

The profile of participants is summarised below:

**PROFILE OF PARTICIPANTS**



**PARTICIPANTS BY REGION**



## Discussion

### Topic 1: Defined lines and subtotals in income statement – improved comparability or imposed uniformity

**Aida Vatrenjak** provided a brief overview of the IASB proposals on the use of subtotals and categories in the income statement, including the allocation principles of income and expenses to the operating, investing and financing categories. These subtotals would provide relevant information and create a more consistent structure of the statement of profit or loss, thereby improving comparability among companies especially due to the new subtotal ‘operating profit or loss’.

**Chiara Del Prete** noted that defining operating profit subtotal was a key proposal of the IASB which would affect all the entities and that EFRAG DCL broadly agreed with the IASB approach, while expressing some reservations mainly aimed at enhancing how the proposal would work in practice. She questioned how the residual and positive definitions of operating category could be combined. In addition, she questioned the labelling of the new categories as they are similar to the categories in the statement of cash flows without being aligned.

**Tina Aggerholm**, from Carlsberg welcomed the IASB project on *Primary Financial Statements* and highlighted its relevance, in particular, the IASB proposals to improve the content and structure of the financial statements. However, she considered that there was still room to improve the IASB proposals.

#### Do you think that the new required allocation (operating, investing and financing) of items in the subtotals will result in better information?

0 5 6

Yes, as it will improve comparability



No, as it will impose uniformity and reduce the space for entity specific allocations



Don't know



She noted that the majority of the audience had welcomed the IASB proposals to have more subtotals to improve comparability.

However, she questioned the meaning of full comparability, particularly when considering that companies have businesses with different characteristics and segments. She considered that having more comparability could put relevance into

question.

She noted that instead, the IASB should focus on providing more guidance on what should be considered as the ‘primary’ or ‘core’ business of a company (within the subtotal operating profit or loss) as the IASB had done for integral and non-integral associates and joint-ventures.

In her view, it would be better to focus on the core profit of the business, related to the entity’s activities, and not having the operating category being defined as a default category where many transactions, including one-off transactions, would be included in operating profit. She also questioned the usefulness of forcing companies to choose between a presentation by function or by nature and considered that companies should be allowed to use a mix approach if it would allow management to better present and communicate the way they manage their business.

Finally, **Tina Aggerholm** considered that there was a need to further discuss the definition and presentation of operating and investing categories. For example, she challenged the usefulness of

presenting the income and expenses from the disposal of production sites and other PPE items within the operating category when such income and expense were secondary to the business activity and missed presentation guidance on specific transactions such as earn-out changes in a business combination.

**Nick Anderson**, IASB Board member, replied that currently companies had freedom to define their own operating profit subtotal, leading to divergence in practice. The IASB proposals would have the benefit of providing a consistent definition for the users of financial statements, who could subsequently make their own adjustments. Aida Vatrenejak added that the disposal of a PPE was part of the business and should be considered as part of operating profit.

**Chiara Del Prete** agreed with the trade-off between comparability and providing more relevant information to users of financial statements. She also noted that this project was about better communication and that preparers would have to adjust their overall communication with the market. She added that the IASB was proposing a new structure for the financial statements, nonetheless companies would still have some flexibility to include additional line items and use of management performance measures.

**SLIDO Q&A:** *Non-operating profits of integral associates/JVs (however material to the group) would assume operating character in proposed presentation? Has this been looked?*

**Nick Anderson** explained the IASB proposals on the classification of associates and joint ventures accounted for using equity method either integral or non-integral. He acknowledged that the split between integral and non-integral was raising a lot of the debate and recalled that the IASB proposals in this area were trying to address the issue of diversity in practice on the presentation of associates and joint ventures. Some also considered useful to identify integral and non-integral associates and joint ventures. **Aida Vatrenejak** added that detailed discussions on the accounting for the equity method were beyond the scope of the project on PFS.

**David Vestengen Hopkins**, from Novo Nordisk, mentioned that his company did not have significant results from associates and joint ventures and that the investing category would not be material. He anticipated that the biggest impact of the IASB proposals would be on the presentation of income and expenses from forex on working capital and hedging items moving to operating category. He noted that this could create technological and operational challenges. In regard to the disclosures by nature when presenting by function, his company already provided extensive information in certain areas and there was a risk of net reduction of disclosures when comparing to IAS 1. He did not think that providing the overall total expenses by nature was very useful without relating the expenses to specific line items by function but would be averse to providing a matrix analysis, particularly where it had been evaluated that disclosure by function was of primary interest to users.

**Nick Anderson** commented that it would be difficult to relate by function and by nature presentation. He noted that European users were in particular asking for by nature presentation but without losing the information which is already provided today.

**Tina Aggerholm** noted that there was a move to the electronic use of the data by the stock exchanges, etc. and that machine reading of the financial statements was becoming more and more spread. In this context, the allocation of the different elements of income statement to the categories became very important, for example, to avoid that some one-off transactions impacting operating profit might be hidden.

**Kristian Koktvedgaard** agreed that it was important to differentiate how the data was being consumed now and how it would be consumed in the future.

**Nicolai Caroe**, from Orsted, agreed with the comments raised before. Currently, his company did not have significant associates and joint-ventures and considered that the IASB proposals would allow to continue its current practice. Nonetheless, if associates and joint-ventures became material, they would like to reflect the results of associates and joint-ventures within EBIT and EBITDA.

**SLIDO Q&A:** *I have a question regarding of tax. Today we allocate tax between P/L and OCI. Have the IASB considered allocating tax further to operating and financing in P/L?*

Aida Vatrenjak replied that the IASB had not discussed this.

**SLIDO Q&A:** *What is IASB reaction on the concern regarding the use of the same labels in the income statement and cash flow statement though with different definitions?*

**Nick Anderson** acknowledged that the labelling was similar although the categories had different purposes. He recalled that some had called for a complete alignment across the primary financial statements. In the past the IASB had worked on this issue and its proposals on cohesiveness had not been welcomed by everyone. He added that the IASB may need to go back and discuss the labelling.

## **Topic 2: Looking at the new subtotals - what is the impact and will they work for all industries**

**Aida Vatrenjak** presented a summary of the IASB proposals for the financial institutions and highlighted that financing income and expenses were presented in operating category as it was the main business of these entities.

**Chiara Del Prete** presented the EFRAG position and in particular asked for the views of constituents on the following topics: where to include income and expenses from the time value of money and income and expenses from cash and cash equivalents ('CCE'); how costly in practice would be the split between investing and operating and between financing and non-financing? Finally, she questioned how the IASB proposals would work for conglomerates and on the individual financial reporting level.

**SLIDO Q&A:** *ED 49(a): Part of the financing category in the income statement is income from cash equivalents, i.e. investments. Why are they not part of the investment category?*

**SLIDO Q&A:** *It is not clear what items are included under financing category in paragraph 49c. All unwinding, including IFRS 15 discounting effect? Could this be elaborated?*

**Aida Vatrenjak** explained that the financing category was related to liabilities except for cash and cash equivalents and that the treatment of CCE was a compromise solution achieved by the IASB. She noticed that the CCE was a good proxy of excess cash that was often part of management of debt, as the income from CCE is off-set against finance costs and is analysed as a part of the treasury. In the IASB view, the costs of splitting it by working capital cash, surplus cash, etc. were too high and would not be justified by the benefits of such split.

Finally, Aida Vatrenjak explained that the definition of the financing category is connected to liabilities and was linked to definition in IAS 7. Thus, some trade payables could be considered as financing from suppliers. In regard to trade receivables, such as prepayments or extended period of payments, interest on such assets could be classified in operating or investing categories but could not be classified as financing.

**SLIDO Q&A:** *What about the confirmatory value of the operating line, given that the conceptual framework focuses on stewardship - has that been explicitly given a thought?*

**Jan Peter Larsen** responded that subtotals give users information about the management stewardship.

**Aida Vatrenjak** explained that operating profit would be complete, including items that could be considered unusual items and this could help communicate stewardship.

**Do you think that it will be feasible to make the distinction between investing and financing for all industries?**

049

Yes, as it will be based on clear concepts

20 %

No, as a uniform definition will be difficult to apply

35 %

No, as what matters is the dividing line operating / non-operating

24 %

Don't know

20 %

**Nick Anderson** explained that it was difficult to decide on the presentation of CCE, including whether entities should decide on their allocation between financing and investing categories. However, it would be difficult to make such an allocation which would involve a lot of judgement. The IASB proposal would have the benefit to determining a specific place to include the information about cash and cash equivalents so that users can easily find it.

**Chiara Del Prete** explained that EFRAG discussions on the presentation of CCE also showed that there were mixed views in this area.

**Topic 3: Management Performance Measures – definition, disclosure and unusual items. Will management still be able to explain the overall performance/ generation of income in the context of the activities and business strategy?**

**Nick Anderson** presented the IASB proposals on Management Performance Measures ('MPMs') and Unusual income and Expenses. He noted that the IASB proposals for MPMs were built very much on ESMA guidelines and focused on key measures of financial performance. He also explained that the new subtotals for the income statement provided an anchor point for users to reconcile the MPMs with IFRS defined measures. The reconciliations were to be provided in a single note, as a response to users' requests, as currently they were located in different places and were therefore sometimes difficult to find. The unusual items were also introduced as a response to users' requests due to diversity in practice to create a single definition of items with limited predictive value.

**Chiara Del Prete** noted that MPMs were a key part of the debate. She expressed support for the IASB efforts to provide guidance and introduce discipline. She noted that in Europe there was already guidance from ESMA on Alternative Performance Measures ('APM') which was applicable to the information provided outside the financial statements. Chiara Del Prete explained that EFRAG had identified a number of challenges and was calling for stakeholders' views. She also explained that EFRAG had suggested the IASB to refine the definition of unusual items that presently occur in the business but only for a limited period of time, questioning the treatment of such items as restructuring costs, that can last several years however do have limited predictive value.

**Do you think that the new structure for the Statement of Profit or Loss will limit management ability to explain the overall performance through Management Performance Measures / generation of income in the context of the activities and business strategy?**

(1/2)

036

It will allow the link to the entity's view of the business and is important



It will allow the link to the entity's view of the business, but is not important

0 %

It will not allow the link to the entity's view of the business, but it should



**Nicolai Caroe** commented that in most cases, the MPMs used by his company were not adjusted for unusual items. However, if the adjustments were made, they would be mentioned in the management report. In his opinion, the IASB proposals seemed to significantly increase the disclosures in the future and he would welcome more explanations about the scope of unusual items.

**Aida Vatrenjak** replied that the objective of the proposals was to improve transparency of the communication with users. If companies do not use MPMs the proposals would not oblige them to start

using them. She acknowledged that it was judgemental to identify unusual items, but she noticed that the threshold for their use was high. She also noted the demand to expand the definition, but she considered that such expansion could jeopardise the comparability and consistency.

**SLIDO Q&A:** *Given the challenges in defining unusual items, will comparability be achieved? And if this is doubtful, aren't the proposals on MPMs sufficient for transparency?*

**Aida Vatrenjak** highlighted the current diversity in practice on the use of unusual, non-recurring, exceptional and other similar items. The IASB objective was to bring more transparency and discipline in the use of these measures.

**Nick Anderson** added that the IASB did not put any constraint to what could be included in MPMs. He also mentioned that the use of columnar presentation was mainly an issue that arose in UK to avoid non-GAAP measures being reported on the face of the financial statements. The attitude differed between jurisdictions but users were concerned with mixing non-GAAP with IFRS numbers. He noted that NCI and tax effect were sometimes disclosed in the notes using a column approach and acknowledged the concerns around the costs of providing the effects of NCI and tax. However, he explained that companies producing adjusted Earnings per Shares numbers already had this information.

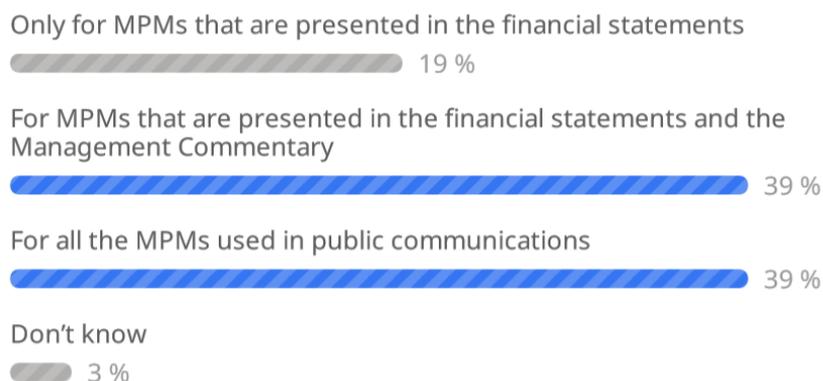
**David Vestengen Hopkins** agreed with the IASB proposals on providing disclosures about MPMs, as it would give some assurance to users. He was concerned about the inclusion of some MPMs only. He also noted that the IASB proposals and ESMA guidelines had a different scope and, therefore, reconciliations of APMs and MPMs would be in two different places (inside or outside of financial statements) and not aligned. This would create barriers to the usefulness to users. He questioned the meaning of unusual items and how it would link to the risks of the business. For example, it is difficult to assure that impairments in the Pharma industry related to adverse development outcomes will not happen in the future and therefore to say that such an impairment was an unusual item. He questioned whether an inherent risk of the business model should ever be an unusual item.

**Tina Aggerholm** considered that the proposals were very simplified and not tailored to the business of the entities. She explained that acquisitions in emerging markets or restructuring programs could take

a long period of time and with no guarantees of success. Such costs could have a great impact on

### The disclosure and reconciliation on Management Performance Measures (MPMs) should be presented:

0 3 6



operating profits (up to 10%) and should be allowed to be presented in a separate line. It was especially valid for the pharmaceutical business. She reiterated that the day-to-day production view, taken by the IASB, was too narrow and other activities in the course of business should be included as separate lines in the income statement in order not to skew the results.

**Nick Anderson** agreed that the scope question was very

controversial but noted that users welcomed more transparency on the use of MPMs. He added that preparers were given complete freedom to define what goes to MPMs. He explained that if material items fitted the structure of income statement of an entity, they should be reported separately.

**Chiara Del Prete** noted the mixed views from Slido on the scope of MPMs and that a majority would prefer a scope narrower than the IASB proposal.

**Nick Anderson** concluded that a discussion opens up to a wider set of MPMs and that the IASB may consider further the scope of MPMs in the future.

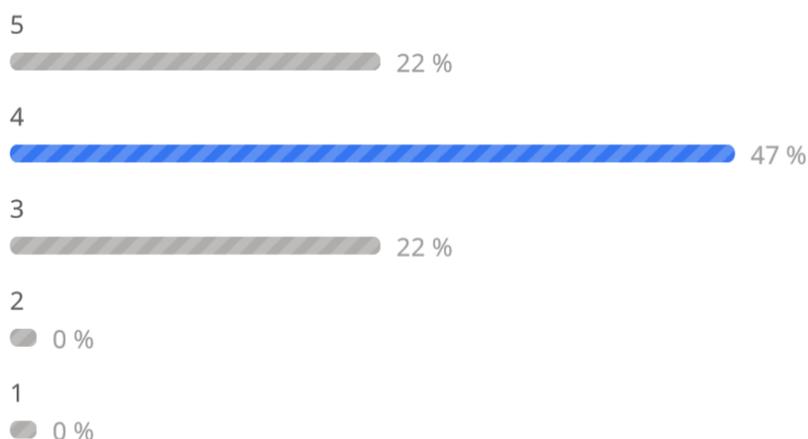
### Topic 4: Principles of aggregation and disaggregation – new proposals expected compared to how companies disaggregate information today.

**Aida Vatrenjak** presented the disaggregation principles and explained that the objective of the guidelines was to help preparers to make decisions on the information that should be presented in the financial statements and in the notes, what presentation of operating expenses (by nature or by function) provides more useful information to users and what is material information. She noted that although the proposals focused on the income statement, they were applicable to the financial statements as a whole and that no mix presentation (by function with some line items presented by nature) of the income statement would be allowed.

She also explained that the IASB proposals on disclosure of expenses by nature were driven by the users' requests, especially in Europe, as information about expenses by nature would help them to predict the future performance. She added that the IASB is expected to discuss the possible expansion of the list of additional line items to be presented on the face of financial statements, regardless of method of analysis of expenses.

**Is it important for investors that entities have to provide a higher level of disaggregation (e.g. line items related to investing and financing categories)? (5 = very helpful – 1 = not helpful)**  
(1/2)

0 3 2



**Chiara Del Prete** expressed support for the IASB proposals on aggregation and disaggregation as they would help to achieve more consistency.

She explained that EFRAG had raised questions on the presentation of expenses by function and by nature and some specific line items, like cost of sales or impairment and how they would fit within the IASB presentation. She also explained that EFRAG was seeking constituents' views on the use of a mix presentation basis (by nature/by function), the costs of the additional disclosures by nature and of the

other disclosures.

**Kristian Koktvedgaard** commented that majority of Slido poll participants considered the IASB proposals on aggregation and disaggregation as helpful.

**Topic 5: Statement of cash flows – change to starting point, new disaggregation due to new line items introduced and removal of classification choice for interest and dividends.**

**Nick Anderson** presented the limited changes that the IASB was proposing to the statement of cash flows, one of them having the 'operating profit or loss' as a consistent starting point, something that users had been asking for years. He explained that these proposals had a limited scope and that the IASB did not intend to review the whole cash flow statement. He added that other proposals concerned the separate presentation of integral and non-integral associates, eliminating the optionality of presenting interests and dividends paid and received and as a result the dividends received and paid will be presented in investing section, which would be helpful for users.

**Kristian Koktvedgaard** presented the results of the last poll with audience which largely supported the IASB proposal of starting the cash flow statement from operating profit.

**Is it useful to start the statement of cash flows (indirect method) with operating profit rather than with net profit?**

0 3 4



**Nick Anderson** thanked everyone participating in the event and for their feedback, which gave real food for thought, and encouraged participants to provide further insights and comments. He also highlighted that the comment period had been extended until 30 September 2020.

**Chiara Del Prete** thanked Danish Industry (DI), FSR – Danish Auditors and the IASB for organising this event jointly with EFRAG and noted that the feedback obtained today would help EFRAG in finalising its comment letter. She reminded that preparers would be welcomed to participate in the field tests until the end of July.

**Jan Peter Larsen**, FSR – Danish Auditors, on behalf of speakers from FSR and DI thanked the IASB for attending (and in particular Nick Anderson for stepping in with short notice) and providing excellent summaries of the different topics; EFRAG - for tremendous help in setting up the event, which made everything easy for FSR/DI and for providing summaries of the European views; Carlsberg, Novo Nordisk and Ørsted - for valuable comments and all other participants - for their input via Slido and closed the meeting.