

# TIME FOR A FACELIFT?

## A NEW LOOK FOR THE INCOME STATEMENT

### *GENERAL DISCLOSURE REQUIREMENTS*

26 May 2020



European Financial Reporting Advisory Group



# AGENDA

Time (CET)	Agenda item	
17:00 – 17:00	Welcome participants	Saskia Slomp
17:00 – 17:15	IASB presentation of the Exposure Draft <i>General Presentation and Disclosure</i> (ED)	Nick Anderson, Aida Vatrenjak
17:15 – 17:25	EFRAG presentation on EFRAG's preliminary position on the IASB's ED	Chiara Del Prete
17:25 – 18:10	User roundtable discussion and Q&A	Marietta Miemietz, Peter Malmqvist, Stefaan Genoe, Hans Buysse
18:10 – 18:15	Take-aways of the user roundtable and close	Serge Pattyn



## Welcome speakers

**Nick Anderson**, IASB Board Member

**Aida Vatrenejak**, IASB Technical Staff

**Chiara Del Prete**, EFRAG Chairwoman

**Hans Buysse**, Chairman ABAF/BVFA, member EFFAS Executive Management Committee and EFRAG Board member

**Marietta Miemietz**, Director, Primavenue Advisory Services Limited

**Stefaan Genoe**, Managing Partner Corporate Finance, Bank Degroof Petercam

**Peter Malmqvist**, Equity analyst, member of EFRAG User Panel

**Serge Pattyn**, member EFFAS CFR, member of EFRAG User Panel

**Saskia Slomp**, EFRAG CEO

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# ED overview – key proposals & expected benefits

<b>What users said</b> 	<b>Key proposals</b> 	<b>Expected benefits of proposals</b> 
<p>Structure and content of statements of profit or loss varies between different entities, making it difficult to compare entities' performance</p>	<p>Introduce <b>defined subtotals</b> in the statement of profit or loss</p>	<p>Additional relevant information and a P&amp;L structure that is more comparable between entities</p>
<p>Level of disaggregation does not always provide the information they need</p>	<p>Strengthen requirements for <b>disaggregating information</b></p>	<p>Additional relevant information and material information not being obscured</p>
<p>Non-GAAP measures can provide useful information, but transparency and discipline need to be improved</p>	<p>Require companies to disclose information about <b>management performance measures</b> in the notes.</p>	<p>Transparency &amp; discipline in use of such measures Disclosures in a single location</p>
<p>Classification and presentation options make it more difficult to compare entities</p>	<p>Introduce targeted improvements to the <b>statement of cash flows</b></p>	<p>Improved comparability between entities</p>

# Overview

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## Topics covered in webinar 1 (19 May)

### General presentation requirements

Subtotals in the statement of profit or loss

Analysis of operating expenses by nature and function

Targeted improvements to the statement of cash flows

## Topics covered in this webinar

### General disclosure requirements

Disaggregation, including unusual income and expenses

Management performance measures

# Disaggregation

## Roles of the primary financial statements and the notes

- Roles of the primary financial statements and the notes clearly described
- Use the description to determine whether information should be included in the primary financial statements or in the notes

## Principles of aggregation and disaggregation

- Principles for aggregation and disaggregation of information; three-step guidance to apply the principles
- Requirements for grouping dissimilar immaterial items (avoiding 'other')

## Required line items

- New required line items, including goodwill and separate line items for integral and non-integral associates and joint ventures

## Analysis of operating expenses (covered in webinar 1)

- Use method for analysis of operating expenses (by nature or by function) that provides the **most useful information** (not a free choice)
- Disclose analysis of **total** operating expenses by **nature** in the notes if analysis by function is presented in the statement of profit or loss

# Disaggregation – unusual income and expenses

## Definition



Income and expenses with **limited predictive value**.

Income and expenses have limited predictive value when it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future annual reporting periods.

Income and expenses from the recurring remeasurement of items measured at a current value would not normally be classified as unusual.

## Disclosures

Amount & narrative description

Amount disaggregated by:

- line items presented in statement of profit or loss; and
- line items disclosed in analysis of operating expenses by nature, if the entity analyses expenses by function in the statement of profit or loss

# Management performance measures (MPMs)

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Disclosure in the notes of subtotals of income and expenses that:

Are used in public communications  
**outside financial statements**

**Complement** totals or subtotals specified by IFRS Standards

Communicate **management's view** of an aspect of an entity's financial performance

Accompanied by disclosures in a **single note to enhance transparency**

# Not all performance measures are MPMs

## Performance measures

### Non-financial performance measures

For example:

- Number of subscribers
- Customer satisfaction score
- Store surface

### Financial performance measures

(Sub)totals of income and expenses

#### IFRS-specified

For example:

- Profit or loss
- Operating profit
- Operating profit before depreciation and amortisation

#### MPMs

For example:

- Adjusted profit or loss
- Adjusted operating profit
- Adjusted EBITDA

Other measures that are not subtotals of income/expenses

For example:

- Free cash flow
- Return on equity
- Net debt
- Same-store sales

# Consultation

## Timeline

**Q4 2019**

Exposure Draft published for public comment

**Q1–Q3 2020**

Comment period (ends 30 September)\*

**Q4 2020**

Board starts redeliberations

The proposals, if finalised, would result in a new Standard and replace IAS 1 *Presentation of Financial Statements*.

## Published materials



Exposure Draft & Illustrative Examples



Snapshot



Video and webinars

\*Extended from 30 June due to covid-19 pandemic.

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# OVERVIEW AND OUTREACH ACTIVITIES

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## EFRAG Draft Comment Letter

- EFRAG published its Draft Comment Letter on 24 February 2020, including the results of the **Early Stage Analysis**
- Comment letters are welcomed by **28 September 2020. Views are still preliminary**
- EFRAG welcomes the IASB's proposals on improving how information is communicated in the financial statements, as **it responds to a strong demand from users** to improve the structure and content of the primary financial statements. However, EFRAG highlights a number of issues and requests stakeholders' views on specific topics

## Outreach activities

- Outreach with different types of European stakeholders, including users, and different jurisdictions have been converted into public webinars and online events, with technical support by EFRAG Secretariat
- Field test with preparers in coordination with National Standard Setters and the IASB, **by 31 August 2020** (please contact [info@efrag.org](mailto:info@efrag.org) by 31 July 2020)

# EFRAG TENTATIVE VIEWS

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## Roles of the primary financial statements and the notes

- EFRAG welcomes the IASB proposal of providing additional guidance on the respective roles of the primary financial statements and notes. EFRAG considers that defining the roles can help define the boundaries between the notes and the primary financial statements.
- In EFRAG's view, the term 'primary financial statements' is generally well understood and EFRAG has not heard of major concerns raised by constituents

## Aggregation and disaggregation (disclosures)

- EFRAG considers that having the principles and general requirements on aggregation and disaggregation of information in the financial statements in a single place will bring clarity and improve consistent application, especially when dealing with large 'others' line items
- In such cases, companies will be required to disclose representation in the notes information about the composition of the aggregated items, for example, by indicating that an aggregated item consists of several unrelated immaterial amounts and by indicating the nature and amount of the largest item in the aggregation

# EFRAG TENTATIVE VIEWS

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## Management Performance Measures

- EFRAG welcomes the IASB's efforts to provide guidance on MPMs which are often used in practice and additional guidance on non-IFRS measures could bring more transparency and consistency on their use
- EFRAG suggests to apply the MPM requirements also to the non-GAAP performance measures, presented within financial statements, that may not satisfy the proposed criteria of MPMs (e.g. adjusted revenues and ratios) and highlights a number of challenges in regard to the ED proposals
- However, EFRAG highlights a number of challenges in regard to the ED proposals and is seeking views of its constituents on a possible alternative narrower scope:
  - Scope 1 (MPM in the financial statements and guidance in the MCPS) or Scope 2 (MPM in communications released jointly with the annual or interim report, including earning releases)?
  - Costs and benefits of splitting income tax effect and NCI for each item in the reconciliation as required by paragraph 106(b)?
  - Do you believe that the IASB's proposals on the structure and content of the statement of profit or loss will lead to an increased number of MPMs?

# EFRAG TENTATIVE VIEWS

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## Unusual items

- EFRAG welcomes the IASB's proposals as they would result in useful information and reduce diversity in practice
- However, EFRAG highlights that the definition of unusual items seems to be rather narrow, as it only focuses on whether expenses/income will occur in the future
- EFRAG suggests the IASB to refine definition of unusual to include items that presently occur in the business, but only for a limited period of time (e.g. those identified in paragraph B15 of the ED such as restructuring costs)
- EFRAG notes that the translation of term 'unusual' may raise issues in some jurisdictions
- EFRAG considers that it would be useful to clarify whether entities can present unusual items on the face of the financial statements by specifically referring to 'unusual line items' and 'unusual subtotals' within the categories defined by the IASB or with the use of columns
- The notion of extraordinary items is not referred to in the Exposure Draft

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# USER ROUND TABLE



**Hans Buysse**, Chairman ABAF/BVFA, member EFFAS Executive Management Committee and EFRAG Board member



**Marietta Miemietz**, Director, Primavenue Advisory Services Limited



**Stefaan Genoe**, Managing Partner Corporate Finance, Bank Degroof Petercam



**Peter Malmqvist**, Equity analyst, member of EFRAG User Panel



# Q&A and Polling questions by SLIDO

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