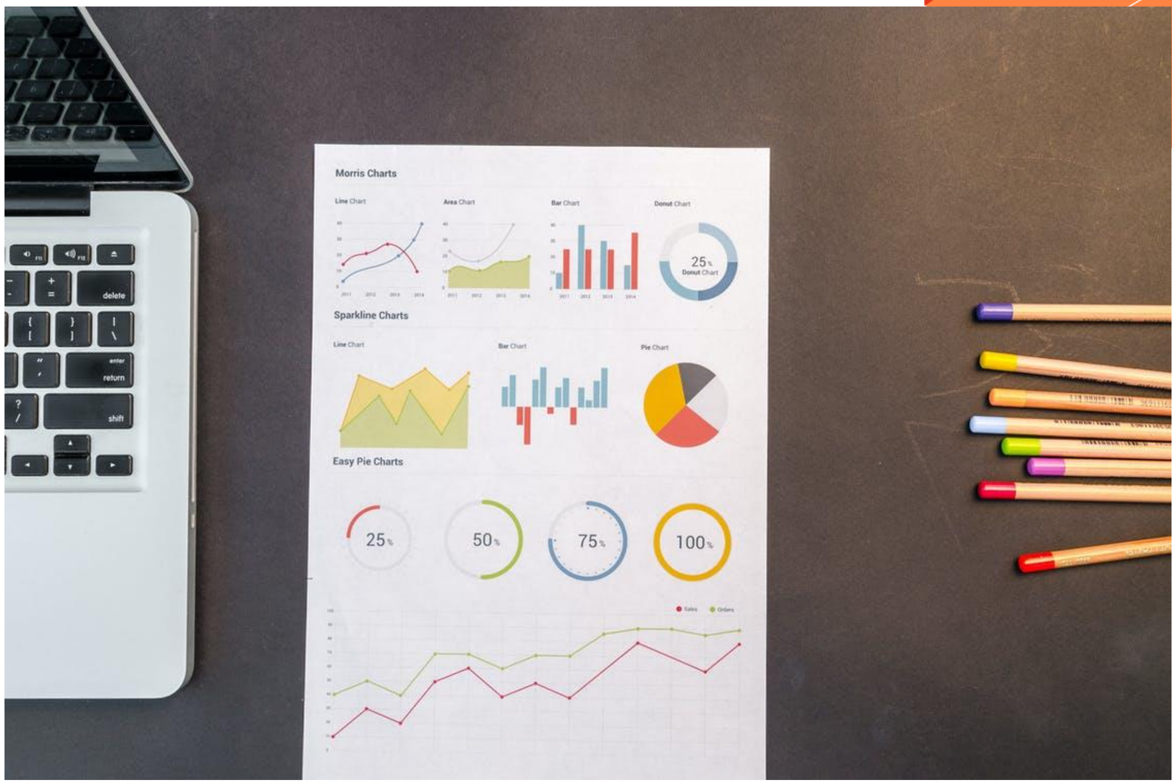
EFRAG FEEDBACK STATEMENT

IASB ED/2019/7 *GENERAL PRESENTATION AND DISCLOSURES*

PRIMARY FINANCIAL STATEMENTS

November 2020



EFRAG
European Financial Reporting Advisory Group

Introduction

Objective of this feedback statement

EFRAG published its final comment letter on IASB ED/2019/7 *General Presentation and Disclosures* ('the DP') on 2 November 2020. This feedback statement summarises the main comments received by EFRAG on its draft comment letter ('DCL') and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG's final comment letter.

IASB Discussion Paper

On 17 December 2019, the IASB published the ED where it includes proposals to improve how information is communicated in the financial statements, with a focus on the statement of profit or loss.

The ultimate objective is to replace IAS 1 *Presentation of Financial Statements* with a new Standard that would comprise new requirements on presentation and disclosures in the financial statements and requirements brought forward from IAS 1 with only limited changes to the wording. It also sets out proposed amendments to other IFRS Standards.

The IASB expects that the proposals in this ED will affect all entities that apply IFRS Standards, including financial institutions. However, the effect of these proposals will vary between entities depending on their current practice.

The ED was open for comments until 30 September 2020.

EFRAG's draft comment letter

EFRAG published its Draft Comment Letter ('DCL') on 24 February 2019 and was open for comments until 28 September 2020.

In its DCL, EFRAG welcomed the ED and the IASB's efforts to improve the structure and content of the primary financial statements.

EFRAG supported the IASB's proposals to present an operating, investing and financing category in the statement of profit or loss to improve comparability and reduce diversity in practice. However, EFRAG had reservations over some of the proposals in the ED:

- the newly created categories in the statement of profit or loss are not aligned with the presentation of cash flows in the statement of cash flows, even though they have similar labelling;
- clear guidance is needed on the notion of 'entity's main business activity' to distinguish between categories in the statement of profit or loss; and
- the ED proposals should consider the interaction with existing regulatory frameworks on presentation of financial statements.

EFRAG also sought views from constituents on the IASB's approach to consider as part of the financing category the income and expenses that arise from:

- cash and cash equivalents; and
- time value of money on liabilities that do not arise from financing activities.

EFRAG considered that separate presentation of integral and non-integral associates and joint ventures was going to result in relevant information for users of financial statements and enhance comparability. EFRAG highlighted that such presentation was going to involve significant judgement and needed to be tested in practice.

EFRAG welcomed the IASB proposal to continue requiring entities to present an analysis of expenses using either by-function or by-nature method. However, EFRAG suggested that the IASB clarified the interaction between paragraph 65, B15 and B47 of the ED.

EFRAG welcomed the IASB's efforts to provide guidance on management performance measures (MPMs) which are often used in practice and additional guidance on non-IFRS measures could bring more transparency and consistency on their use. However, EFRAG highlighted a number of challenges in regard to the ED proposals and asked for views of its constituents on a possible alternative narrower scope. EFRAG also suggested that the IASB further articulated the link between MPMs and IFRS 8 *Operating Segments*.

EFRAG welcomed the IASB's efforts to define unusual income and expenses and to require entities to disclose such items in the notes, however the definition of unusual items seemed to be rather narrow, as it focuses on whether expenses/income will occur in the future.

Outreach activities

After the publication of its DCL, EFRAG realised a programme of outreach events, field-testing and stakeholder meetings in partnership with other organisations, including with the IASB.

EFRAG organised and participated in the following outreach events:

- *Input on the IASBs Exposure Draft General Presentation and Disclosures*: Online joint outreach event hosted by EFRAG, FSR – Danish Auditors, the Confederation of Danish Industry (DI) and the IASB (14 May 2020). For more details, please click here.
- *Time for a facelift? A new look for the income statement (Presentation)*: Online users joint outreach event hosted by EFRAG, EFFAS, BVFA/ABAF and the IASB (19 May 2020). For more details, please click here.
- *Time for a facelift? A new look for the income statement (Disclosures)*: Online users joint outreach event hosted by EFRAG, EFFAS, BVFA/ABAF and the IASB (26 May 2020). For more details, please click here.
- *Changing the Income Statement – Norwegian perspectives:* Online joint outreach event hosted by EFRAG, NASB, the NFF and the IASB (17 June 2020). For more details, please click here.
- *Outreach event on PFS with Accounting Standards Committee of Germany (ASCG)* on 7 September and 11 September 2020. For more details please click here.
- Joint outreach event PFS with Dutch Accounting Standards Board (DASB) on 16 September 2020. For more details please click here.

Field-testing

On 6 March 2020, EFRAG, in close coordination with European national standard setters and the IASB, launched a field-testing of the IASB's proposals included in the ED.

The purpose of the field-testing was to identify potential implementation and application concerns, to determine whether there is a need for additional guidance, and to estimate the effort required to implement and apply the proposals.

EFRAG organised the following workshops:

- *Field-Test Workshop on 7 July with preparers of financial statements – 5 corporates*. For more details, please click here.
- *Field-test workshop on 7 July with preparers of financial statements – 4 Financial Institutions*. For more details, please click here.
- *Field-test workshop on 24 August with preparers of financial statements – 2 Financial Institutions and 4 Corporates*. For more details, please click here.

Finally, to collect input from the community of interested preparers that under the present circumstances were unable to participate in the field-tests, EFRAG organised an online event on 1 September 2020 focused on preparers - *EFRAG online joint outreach event with BusinessEurope: Preparers Round-table* – online joint outreach event hosted by EFRAG, BusinessEurope and the IASB. For more details, please click here.

Comment letters received from constituents

In addition to the outreach activities, EFRAG received 36 comment letters from constituents. These comment letters are available on the EFRAG website.

The comment letters were received from national standard setters, regulators, users' representatives, preparers and accounting and professional organisations.

A summary of the comment letters received can be found here.

Feedback received from constituents

In general, participants in outreach events and respondents to EFRAG DCL ('respondents') welcomed the IASB's ED and the IASB's efforts to improve how information is communicated in the financial statements.

Nonetheless, most of the respondents and participants in outreach events considered that there was still room to improve the IASB proposals. These stakeholders called for the IASB to further improve or discuss alternatives to its proposals before issuing a new IFRS Standard. It was also noted that the main challenge of this project was to:

- strike the right balance between providing more comparability and allowing management to convey its views of the company's financial performance; and
- strike the right balance between the costs for preparers (e.g. update the IT systems for the allocation of income and expenses to the new categories and disclosures by nature when presenting by function) and benefits for users from having more disaggregation and disclosures.

In general, respondents and participants in outreach events welcomed the IASB's efforts to improve the structure and content of primary financial statements. Many welcomed having more granular information on the face of the financial statements, particularly users of financial statements.

Nonetheless, some respondents expressed concerns on the IASB's proposals to require new subtotals and categories on the face of the financial statements as it would:

- impose uniformity (increasing the use of MPMs); and
- would require the use of non-relevant categories. For example, it would require an investing category which his currently not used, even if allowed by IAS 1 and an operating category for financial institutions when most of their income and expenses would be presented within operating profit.

When referring to the proposed disclosures, respondents and participants in outreach events in general acknowledged and agreed that non-IFRS measures and unusual items are often used in practice and would welcome more discipline and transparency on their use. Many, particularly users of financial statements, also acknowledged the benefit of having such items being audited. Nonetheless, EFRAG received mixed views on whether and how MPMs and unusual items should be defined and disclosed in the financial statements.

EFRAG's final comment letter

As respondents to EFRAG's DCL and participants in the outreach events supported in general the IASB proposals in the ED, EFRAG decided to reiterate its initial support for the IASB's efforts to improve the content and structure of the financial statements. However, EFRAG decided to give more prominence to the concerns raised by its constituents in its final comment letter.

More specifically, EFRAG supported the IASB's proposals to present an operating, investing and financing category in the statement of profit or loss to improve comparability and reduce diversity in practice. However, EFRAG stated that it had reservations over some of the proposals in the ED. For example:

- clear guidance is needed on the notion of 'entity's main business activity' to distinguish between categories in the statement of profit or loss;

- the proposals should consider the interaction with existing regulatory frameworks on presentation of financial statements;
- the newly created categories in the statement of profit or loss are not aligned with the presentation of cash flows in the statement of cash flows, despite using similar labelling;
- the 'free' accounting policy choice in paragraph 51(b) of the ED, while being useful for banks, may result in the loss of relevant information for users when used by non-financial institutions (e.g. manufacturer providing financing to customers); and
- the IASB should further consider how its proposals should be applied in specific circumstances, including the interaction of the IASB's proposals with IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*.

EFRAG considered that the distinction between integral and non-integral associates and joint ventures could provide relevant information to users. However, EFRAG was concerned that the IASB's proposed definition would involve significant judgement and, therefore, proposed that the IASB:

- clarified the terms 'main business activity', 'generate a return individually and largely independently of the other assets of the entity' and 'significant interdependency';
- expanded the new paragraph 20D of IFRS 12 *Disclosure of Interests in Other Entities* to widen the scope of integral associates and joint ventures, include additional indicators and more examples with the objective of reducing the level of judgement involved; and
- required the presentation of the results of all associates and joint ventures below the subtotal 'operating profit or loss', as a separate line item within the subtotal 'operating profit or loss and income and expenses from associates and joint ventures'. In addition, EFRAG suggested that the IASB required the split between 'integral' and 'non-integral' in the notes to the financial statements. EFRAG noted that in accordance with paragraph 66 of the ED, entities can always make the split on the face of the financial statements if such split is considered useful.

EFRAG supported the IASB's proposal to continue requiring entities to present an analysis of expenses using either by-function or by-nature method, based on whichever method provides the most useful information to the users. Nonetheless, EFRAG recommended that the IASB further investigates the cost/benefit profile of its requirement to disclose on a by-nature basis in the notes when presenting by-function on the face of the financial statements, and, if appropriate, consider focusing on information that is most needed by users.

EFRAG welcomed the IASB's efforts to define unusual income and expenses and to require entities to disclose such items in the notes, however the definition of unusual items seemed to be rather narrow, as it focuses on whether expenses/income will occur in the future.

EFRAG welcomed the IASB's efforts to provide guidance on MPMs. Nonetheless, EFRAG considered that not only subtotals on the face of the statement of profit or loss but also other measures, such as indicators of financial position or ratios, should be included in the scope of this requirement. EFRAG also invited the IASB to consider:

- making the definition of public communication narrower, limiting the scope to the MPMs presented in public communications released jointly with the annual or interim reports;
- excluding performance measures required by regulators; and
- extending the scope to cover possible MPMs presented in the financial statements but not in other public communications.

EFRAG questioned also the cost/benefit profile of the requirement to present the split of tax and non-controlling interest components for all the items when a performance measure is adjusted.

Finally, EFRAG considered that the IASB had not sufficiently articulated the link between MPMs and IFRS 8 *Operating Segments* and suggested that the IASB required an explanation of how MPMs interact with performance measures presented under IFRS 8.

Detailed analysis of issues, comments received, and changes made to EFRAG's final comment letter

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Questions 1 to 4 *Operating Category*

In the ED, the IASB proposes to define and require that all entities present the subtotal operating profit or loss. In particular, the ED proposes entities to classify in the operating category income and expenses from financing to customers and investments made as part of their main business activities or in the course of the entity's main business activities.

In its DCL, EFRAG supported the IASB's proposals to present an operating category in the statement of profit or loss to improve comparability and reduce diversity in practice. However, EFRAG had reservations over some of the proposals in the ED. For example:

- clear guidance is needed on the notion of 'entity's main business activity' to distinguish between categories in the statement of profit or loss;
- the newly created categories in the statement of profit or loss are not aligned with the presentation of cash flows in the statement of cash flows; having similar labelling may raise confusion;
- the IASB should better explain the interaction of the new requirements related to the categories and subtotals with paragraph 24 of the ED which refers to the notion of materiality;
- the IASB should consider the interaction of IASB proposals with existing regulatory frameworks on presentation of financial statements;
- the use of the accounting option in paragraph 51(b) should be restricted; and
- it would be useful to consider whether 'incremental expenses' related to financing activities should also be in the financing category, by symmetry, with expenses relating to investing activities.

The majority of the respondents generally supported the IASB's proposal to require and define 'operating profit or loss. However, many

EFRAG's response to constituents' comments

EFRAG Final Position

Considering the feedback received, EFRAG decided to retain its initial position to support the IASB's proposals to present an operating category but decided to give more prominence to the concerns raised by its constituents in its final comment letter. More specifically, EFRAG decided to give more prominence to the following concerns:

- need for more guidance on the notion of 'an entity's main business activities'. For example, more guidance on:
  - when considering different levels of reporting entities in a group context;
  - when an entity is permitted or even required to reassess what constitutes its main business activities, including related disclosures and reclassification consequences;
  - narrative disclosures to provide a description of the nature of the entity's operations and its main business activities;
  - the interaction between the proposal in the ED and IFRS 8, by, for example, including minor or auxiliary business activities (i.e. not main business activities) as a different segment; and
  - how the concept would be applied to investment entities.
- need to further consider the presentation of operating profit or loss when one or more line items between categories are immaterial, particularly for the statement of profit or loss of banks and financial conglomerates;
- the IASB should further consider how its proposals should be applied in specific circumstances, including the interaction of the IASB's proposals with IFRS 17 and IFRS 9;
- highlighted some of the challenges on the classification of foreign exchange differences and of fair value gains and losses on derivatives and hedging instruments and suggested that the IASB should:
  - consider further the cost/benefit profile of this proposal; and

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

respondents expressed concerns similar to those expressed by EFRAG, particularly on clearer guidance on the notion of 'entity's main business activity' to distinguish between categories in the statement of profit or loss.

In addition to the issues mentioned by EFRAG, respondents:

- considered that it is key to clarify the relation to the definition of 'operating segments' under IFRS 8 *Operating Segments*;
- expressed concerns on definition of operating category when applied to banks (e.g. most income and expenses would be presented within operating profit);
- expressed concerns on the definition of operating category when applied to the insurance industry (e.g. interaction with IFRS 9 and IFRS 17);
- expressed mixed views on having a definition of 'operating profit or loss' that contains both a positive and a residual element;
- referred to the challenges and implementation costs related to the allocation of exchange differences and hedging instruments;
- raised questions on the guidance on hedging instruments that hedge a group of items with offsetting risk positions when all hedge items are within one category such as operating profit;
- raised questions on how the proposals would have to be applied in the separate financial statements;
- expressed mixed views on whether there is a need to separate returns from investments made in the course of an entity's main business activities from those that are not; and
- did not support the accounting policy option in paragraph 51 of the ED for entities that provide financing to customers as described in the ED. Nonetheless respondents provided different views on their disagreement (either considered that 51(b) should not be available for non-financial institutions or not available at all circumstances) and provided different suggestions on how to move forward.

EFRAG's response to constituents' comments

  - provide more guidance and examples on the classification of foreign exchange differences and of fair value gains and losses on derivatives and hedging instruments to ease implementation.
- suggested that the IASB considers how the proposals would have to be applied in the separate financial statements;
- highlighted that separating returns from investments made in the course of an entity's main business activities from those that are not can be challenging and called for more guidance and examples, particularly for banks and insurance companies, on investments that are not made in the course of an entity's main business activities;
- the 'free' accounting policy choice in paragraph 51(b) of the ED, while mainly being useful for banks, may result in the loss of relevant information for users, in particular when used by non-financial institutions (e.g. manufacturer providing financing to customers); and
- more implementation guidance and examples on financing activities that do not relate to the provision of financing to customers for entities that provide financial services.

Finally, EFRAG acknowledged the concerns from constituents that the combination of a positive definition and a residual element would result in presenting in this category not only 'the entity's main business activities' (as per the positive definition) but also residual or ancillary activities (i.e. not part of the entity's main business activities).

Nonetheless, EFRAG noted that in accordance with paragraph 42 of the ED entities may present such minor or ancillary business activities separately within operating profit or loss if relevant. In addition, EFRAG considered that when entities choose to present on the face of the statement of profit or loss additional line items or subtotals for their residual or ancillary operating activities, specific disclosure should be required.

EFRAG also noted that the IASB should consider improvements to the interaction between the proposal in the ED and IFRS 8, by, for example, including minor or auxiliary business activities (i.e. not main business activities) as a different segment.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Questions 5 *Investing Category*

In the ED, the IASB proposes 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.

In its DCL, EFRAG supported the IASB's proposal to require the presentation of an investing category subject to materiality considerations. EFRAG was also concerned about presenting gains and losses on derivatives in the investing category under certain conditions, particularly when referring to financial institutions. Finally, EFRAG asked for views on the costs of the proposal for presentation of exchange differences.

Many respondents supported the proposal to create a new separate category in the profit or loss statement for 'investing' income and expenses, as it will provide useful information to users of financial statements about the returns from investments that are not part of the entity's main business activities.

By contrast, a similar number of respondents expressed significant concerns on, or were even against the introduction of the investing category as, for example, it would create implementation complexities, result in diversity in practice and would not provide useful information (entities are not currently presenting an investing category even if it is possible under IAS 1).

Finally, many respondents called for more guidance on the definition of an investing category. In particular, respondents called for further guidance on:

- what constitutes 'investments made in the course of the entity's main business activities' (including examples of investments that are not part of the entity's main business activities);
- what constitutes 'a return individually and largely independently of other resources held by the entity';

EFRAG's response to constituents' comments

EFRAG Final Position

Considering the feedback received, EFRAG decided to continue to support the presentation of an investing category, subject to materiality considerations.

Nonetheless, EFRAG decided to highlight, in line with the feedback received, that the definition of the investing category is not sufficiently clear to ensure consistent application.

For example, EFRAG decided to reiterate that clarifications are needed for:

- what constitutes 'entity's main business activities', including examples of investments that are not part of the entity's main business activities;
- better explain the interaction of the new requirements related to the categories and subtotals with paragraph 24 of the ED which refers to the notion of materiality;
- more guidance on incremental expenses; and
- the classification of specific items such negative interest payments.

EFRAG also decided to acknowledge in the letter the concerns related to the presentation of items related to business combinations such as:

- contingent consideration from business combinations;
- goodwill impairment losses; and
- acquisition-related costs incurred in a business combination.

Nonetheless, EFRAG noticed that these concerns could be mitigated by the use of MPMs, better disclosures and improved segment information.

Finally, considering the feedback received on hedging instruments, EFRAG suggested the IASB clarifies the guidance on hedging instruments that hedge a group of items with offsetting risk positions when all hedge items are within one category (operating category) and allow the presentation of related gains and losses in that category (i.e. operating category).

EFRAG's tentative views expressed in the draft comment letter and constituents' comments	EFRAG's response to constituents' comments
• on how the new requirements on the investing category would interact with the notion of materiality referred in paragraph 24 of the ED when considering that often the investments that are not part of the entity's main business activities are not material; • incremental expenses incurred generating income and expenses from investments; • raised questions on the classification of specific items such as contingent consideration from business combinations and goodwill impairments; • classification of foreign exchange differences (due to complexity and related costs); • classification on fair value gains and losses on derivatives and hedging instruments, particularly the guidance in paragraph 57 of the ED on hedging instruments that hedge a group of items with offsetting risk positions when all hedge items are within one category (operating category); and • whether the investing and financing categories could be optional or merged.	

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Question 6 *Financing Category*

In the ED, the IASB proposes to define and require that all entities, except for some specified entities (see paragraph 64 of the ED), present a 'profit or loss before financing and income tax' subtotal in the statement of profit or loss.

In its DCL, EFRAG supported the IASB's proposal to require and define 'profit or loss before financing and income tax' and the 'financing category'. However, EFRAG highlighted the challenges of the IASB's proposals to make the distinction between the investing and financing category. EFRAG also noted that it would be useful to consider whether incremental expenses related to financing activities should also be in the financing activities in symmetry with the treatment of expenses relating to investing activities.

Finally, EFRAG asked the views from constituents on the IASB's approach to consider as part of the financing category the income and expenses that arise from:

- cash and cash equivalents; and
- time value of money on liabilities that do not arise from financing activities.

Many respondents welcomed the IASB proposal to require and define a subtotal for 'profit or loss before financing and income tax'. Some of these noted that this subtotal would serve the purpose of allowing users of financial statements to analyse on a consistent and comparable basis an entity's performance independently of how that entity is financed.

Respondents also provided a number of suggestions to help implementation:

- recommended that the IASB clarifies the scope of "other liabilities" in paragraph 49 (c). For example, whether provisions for uncertain tax positions are within the scope of other liabilities. The IASB should also clarify whether interest income and

EFRAG's response to constituents' comments

EFRAG Final Position

Considering the feedback received, EFRAG decided to continue to support the IASB's proposal to require and define 'profit or loss before financing and income tax' and the 'financing category.

EFRAG decided to highlight the challenges of the IASB's proposals to make the distinction between the investing and financing category and give more emphasis to the need of having additional guidance to help implementation:

- the scope of 'other liabilities' in paragraph 49 (c). For example, whether provisions for uncertain tax positions are within the scope of other liabilities. The IASB should also clarify whether interest income and expenses on uncertain tax amounts are included in the same category;
- clarify whether immaterial items from financing and investing activities can be presented within the operating category; and
- clarify the categorisation of interest income and expenses related to assets (whether unwinding of the discount on assets is part of the financing category).

Income and expenses that arise from cash and cash equivalents

In regard to the presentation of income and expenses that arise from cash and cash equivalents, EFRAG decided, after considering the different views on the topic, to accept the approach proposed in the ED. As noted in paragraph BC40 of the Basis for Conclusions, requiring entities to split cash and cash equivalents between amounts in the different categories could result in operational costs which would outweigh the benefits.

Income and expenses that reflect the effect of the time value of money on liabilities that do not arise from financing activities the income

In regard to the presentation of income and expenses that reflect the effect of the time value of money on liabilities that do not arise from financing activities the income, EFRAG acknowledged that there are arguments for presenting these income and expenses as operating or financing. EFRAG recognised, from the feedback received, the arguments mentioned in paragraph BC44 of the Basis for Conclusions, that not all users consider that expenses that reflect the effect of the time value of money to be similar to income or

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

expenses on uncertain tax amounts are included in the same category;

- recommended that the IASB clarifies the categorisation of interest income and expenses related to assets; and
- recommended that the IASB provides flexibility to include immaterial items from financing and investing activities within the operating category.

Finally, respondents provided mixed views on the presentation of cash and cash equivalents and interest income and expenses on liabilities that do not arise from financing activities.

EFRAG's response to constituents' comments

expenses from financing activities and to address this issue, the IASB proposed a separate line within the financing category in order to offer a practical approach to identify these components.

Considering the above, EFRAG decided to accept the proposed approach and recommended that the IASB requires a disaggregation in the notes to the financial statements on the main components of the line. Nonetheless, would welcome if the IASB would better explain the reasoning behind the IASB decision to present in the financing category the effect of the time value of money on liabilities that do not arise from financing activities.

Question 7 *Integral and non-integral associates and joint ventures*

In the ED, the IASB proposes to define and require separate presentation and disclosures of integral and non-integral associates and joint ventures. In addition, it proposes to require entities to present the subtotal 'operating profit or loss and income and expenses from integral associates and joint ventures' on the face of the statement of profit or loss.

In its DCL, EFRAG considered that separate presentation of integral and non-integral associates and joint ventures would result in relevant information for users of financial statements and enhance comparability. EFRAG, however, highlighted that such presentation would involve significant judgement and needed to be tested in practice. EFRAG also asked the views from constituents on the need to expand the new paragraph 20D of IFRS 12 to provide more indicators in order to reduce the level of judgement required and if it would be useful to separately present or disclose the income tax related to associates and joint ventures. Finally, EFRAG raised questions how the IASB proposals would apply to Separate Financial Statements.

Definition of integral and non-integral associates and joint ventures

When referring to the IASB's proposed definition of integral and non-integral associates and joint ventures, respondents provided split views:

- Approximately half of the respondents that replied supported the IASB's proposal to define integral and non-integral associates and joint ventures, as it would give users of financial statements more insights in the way the reporting entity sees its own business model. Nonetheless, the majority of these respondents highlighted the shortcomings of the IASB definition in terms of scope. In particular, respondents considered that the definition of integral associates and joint ventures was too narrow as it excluded many associates and joint ventures that would be considered as part of the entity's main business activities. In addition, respondents requested for more guidance to ease implementation, particularly on the notion of 'main business activity'; and
- approximately similar number of respondents did not support the IASB's proposal as, among others, it would involve significant judgement, putting into question its relevance, and any expected

EFRAG Final Position

Definition of integral and non-integral associates and joint ventures

Considering the feedback received, EFRAG decided to reiterate its support for the IASB efforts to make a distinction between integral and non-integral associates and joint ventures. However, EFRAG decided to express the concerns raised by its constituents on the significant judgement involved in the definition on integral and non-integral associates and joint ventures, which would hinder the comparability.

EFRAG, therefore, decided to ask the IASB to clarify or revisit the concept of integral, including its adjacent definitions of 'main business activity', 'generate a return individually and largely independently of the other assets of the entity' and 'significant interdependency'.

To reflect the concerns expressed by the respondents about lack of guidance, EFRAG also decided to request more guidance and examples to foster a consistent application of the proposals. For example, EFRAG suggested that the IASB expands the new paragraph 20D of IFRS 12 to:

- widen the scope of the definition of integral associates and joint ventures; and
- include additional indicators and more examples.

To reflect the comments received, EFRAG also noted that equity accounted investments (associates and joint ventures) may need to be reported in the operating category in particular circumstances and suggested the IASB to work on further refinement of the definition of integral and non-integral when substantially all risks and rewards from the investments impact other parties than the shareholders (e.g. creditors, policyholders).

Finally, EFRAG decided to ask for clarification how the IASB's proposals would apply to subsidiaries, associates and joint ventures in the separate financial statements.

benefits of increased transparency or comparability would not outweigh the reporting costs.

Even though there were split views on the IASB's proposals, in general respondents and participants in outreach events expressed concerns about the high level of judgement and subjectivity of the new definition, which would impede comparability.

Respondents and participants in outreach events also made several suggestions to improve the IASB definition and asked for clarifications, further guidance and more illustrative examples to be able to apply this definition in practice. For example, some respondents:

- asked how the IASB's proposals would apply to the separate financial statements); and
- suggested that in particular circumstances entities should be permitted to report the income and expenses from associates and joint ventures within the operating category. In particular, when entities invest as part of their main business activities and where the associates and joint ventures are part of their investment strategy (e.g. insurance companies).

Presentation of the subtotal 'profit or loss and income and expenses from associates and joint ventures'

The majority of respondents, including users of financial statements, did not support the IASB's proposal to require the presentation of the subtotal 'profit or loss and income and expenses from integral associates and joint ventures'.

These respondents provided several arguments against the presentation on the face, among which that the IASB proposal would give undue prominence to a subtotal focused on integral associates and joint ventures, making the structure of the statement of profit or loss unduly complicated and damaging comparability (due to the subjectivity of the definition of integral). The respondents also expressed concerns that the implementation would be costly and might not reflect the way entities manage their business.

Many respondents preferred to provide the split between 'integral' and 'non-integral' in the notes to the financial statements rather on the face of the statement of profit or loss.

Presentation of the subtotal 'profit or loss and income and expenses from associates and joint ventures'

Following the feedback received, EFRAG decided not to support the IASB proposals on the separate presentation of the subtotal 'operating profit or loss and income and expenses from integral associates and joint ventures' on the face of the statement of profit or loss.

Instead, EFRAG suggested presenting the results of all associates and joint ventures below the subtotal 'operating profit or loss'. These results would be presented in a separate line item before the subtotal 'operating profit or loss and income and expenses from associates and joint ventures'.

In addition, in line with the responses received, EFRAG suggested to provide the split between 'integral' and 'non-integral' in the notes of the financial statements.

Question 8 *Role of primary financial statements, aggregation and disaggregation*

In the ED, the IASB proposed description of the roles of the primary financial statements and the notes. In addition, the IASB sets out proposals for principles and general requirements on the aggregation and disaggregation of information.

In its DCL, EFRAG welcomed the IASB's efforts to improve the general requirements on disaggregation and to provide them within a single place in the new standard as it will improve clarity and consistent application across entities.

In general, respondents agreed with the IASB proposals and provided a number of comments, including:

- additional guidance is needed to reduce the judgement required to group different items belonging to the same transaction into one single line item and to address the topic of reverse factoring;
- clarification is necessary to apply the aggregation principles over time, including when using comparatives;
- to clarify paragraph 28 of the ED to present details of "other items"; and
- additional guidance would be useful to avoid that the proposals in the ED lead to presentation and disclosure of immaterial items.

Some of the respondents suggested amendments to the definition of role of the primary financial statements and notes, such as referring to overall position, performance, cash flows and stewardship of an entity, rather than the elements (assets, liabilities, equity, income, expenses) included in those financial statements.

EFRAG Final Position

Considering the feedback received, EFRAG decided to add to its initial response, supporting the IASB proposals, the need for further clarifications of the principles of the disaggregation.

In particular, EFRAG highlighted that it is unclear:

- how the principles of (dis)aggregation relate to the use of comparatives. I.e. an entity:
    - would (not) need to retain the amount of detail presented in prior year financial statements (if it has concluded that another level of aggregation or disaggregation was appropriate); or
    - may change its presentation (including a restatement of the comparative information presented).
- how an entity can avoid that the application of the proposals in paragraphs 27 and 28 of the ED leads to presentation and disclosure of immaterial items obscuring the presentation of relevant information.

Question 9 *Analysis of expenses*

In the ED, the IASB proposes 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. In addition, it proposes that entities that provide an analysis of its operating expenses by function have to provide an analysis using the nature of expense method in the notes.

In its DCL, EFRAG supported the IASB's proposal to continue to require entities to present an analysis of expenses using either by-function or by-nature method, based on whichever method provides the most useful information to users of financial statements. However, EFRAG suggested that the IASB clarifies that paragraph B47 of the ED allows, or even requires, a mixed basis of presentation when an entity presents line items under paragraphs 65 and B15 of the ED.

Presentation of operating expenses using the nature of expense method or the function of expense method of analysis

Many respondents supported the IASB's proposal to continue to allow entities to present expenses either by-function or by-nature. Nonetheless, a few respondents expressed concerns on the new indicators proposed by the IASB in paragraph B45 of the ED.

Respondents and participants in the outreach activities also requested a better description of the by nature and by function method. For example, some respondents called for the IASB to better define presentation by function as the presentation of some line items (e.g. restructuring expenses, administrative expenses, goodwill impairment losses, cost of goods sold) involved significant judgement (i.e. whether specific line items are by function or by nature and if by nature, how to defined and allocate them to by function line items).

Restriction of mixed presentation

In general, respondents and participants in outreach activities noted that the restriction of a mixed approach to items outlined in paragraph 65 would raise a number of questions:

- paragraphs 65, B15, and B47 of the ED seem to contradict the no-mix principle by requiring minimum line items to be presented on the

EFRAG Final Position

Presentation of operating expenses using the nature of expense method or the function of expense method of analysis

Considering the feedback received, EFRAG decided to continue to support in principle the IASB's proposal to continue requiring entities to present an analysis of expenses using either by-function or by-nature method, based on whichever method provides the most useful information to the users of financial statements.

However, EFRAG decided to mention that, based on the feedback received, a better description of the by-function and by-nature methods is needed (e.g. lack of guidance on the presentation of cost of goods sold and administrative expenses), particularly if the IASB decides to proceed with its proposals to not allow a mixed presentation basis. EFRAG also decided to refer to some of the concerns received about the application of paragraph B45 of the ED.

Restriction of mixed presentation

Considering the feedback received, EFRAG decided to highlight that it would be useful if the IASB clarified its primary objective for the presentation of expenses by nature or by function, including the role and scope of a mixed basis of presentation (i.e. clearly state what a mixed presentation basis is and when such mixed presentation is allowed), particularly for those applying IFRS 17 and financial conglomerates.

Disclosing by-nature when presenting by-function

Considering the feedback from preparers and users of financial statements on disclosures by nature when presenting by function, EFRAG decided to acknowledge in its letter the benefits for users of having information by nature and the related costs for preparers.

EFRAG also highlighted that its outreach activities shown that both users and preparers were likely to accept a more balanced outcome (e.g. providing a partial presentation by nature of some fundamental operational expenses).

Thus, EFRAG decided to recommend that the IASB further investigates the cost/benefit profile of the IASB's proposal to disclose on a by-nature basis in the notes when presenting by-function on the face of the face of the statement of profit or loss regardless of this choice, leading to a mixed presentation;

- paragraphs 65, 71, B15 and B47 of the ED together with the presentation requirements in IFRS 9 and IFRS 17 would impose a mixed presentation basis for those applying IFRS 17; and
- the IASB proposals would raise significant challenges for financial conglomerates which have to present in a single statement of profit or loss the banking and insurance activities. This is because banks generally report on a by-nature basis, while insurers generally report on a by-function basis. When combining both activities into one entity – a financial conglomerate – the prohibition to use a mixed approach would oblige an entity to choose a method in terms of presentation, which would override the most useful information replacing it with – by definition – less useful information.

Some of these respondents noted that if the mixed presentation was prohibited, then additional guidance for distinguishing between the presentation methods would be helpful. Finally, a few respondents called for clarifications on the link between paragraphs 65, B15 and B46 of the ED.

Disclosing by-nature when presenting by-function

Many respondents, particularly preparers and preparers organisations, disagreed with the IASB's proposals. These respondents referred to the high costs related to the disclosures of total operating expenses by nature when presenting by function on the face of the statement of financial performance. By contrast, many users, some national standard setters and one regulator welcomed the IASB's proposal. In particular, many users highlighted that the analysis of expenses by nature was essential to help them estimating future cash flows.

Finally, some respondents noted that the structure of the statement of profit or loss would be significantly predetermined due to the requirements in IFRS 9, IFRS 17 and paragraph 65 of the ED. Such predetermined structure would imply the use of a mixed approach. Considering this, it was not clear how entities that are required to use a mixed approach would apply the requirements regarding the additional disclosures by nature.

financial statements, and, if appropriate, consider focusing on which information is most needed by users.

Finally, considering the feedback received from its constituents, EFRAG decided to request the IASB to further clarify whether and how the proposed requirement in paragraph 72 of the ED is to be applied when entities are required to present on a mixed basis (in accordance with paragraph 65 of the ED and IFRS 17).

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Question 10 *Unusual income and expenses*

In the ED, the IASB proposes to define and require entities to provide disclosures on unusual income and expenses. The IASB also proposes application guidance to help an entity to identify its unusual income and expenses.

In its DCL, EFRAG welcomed the IASB's efforts to define unusual income and expenses and to require entities to disclose such items in the notes. However, EFRAG considered that the definition of unusual items seems to be rather narrow, as it focuses on whether expenses/income will occur in the future. EFRAG also stated that during its consultation period, it was going to reach out to national standard setters, users of financial statements, preparers, regulators, business associations and other accounting experts to test the practical application of the ED proposals.

Identifying and disclosing unusual income and expenses

The majority of the respondents agreed or supported the IASB's proposals to require disclosure of unusual income and expenses. In particular, these respondents welcomed the IASB's effort to define unusual income and expenses.

Nonetheless, many respondents, expressed significant concerns or even disagreed with the proposals on identifying and disclosing unusual items. These respondents argued, for example, that the proposals were highly judgemental and that the new concept of MPMs in combination with the rather narrow definition of unusual items was most likely to add confusion around performance measures and impair confidence in financial reports.

Definition of unusual income and expenses

When referring to the scope of the IASB's proposed definition of unusual income and expenses, respondents provided mixed views. Many respondents considered that the IASB's definition of unusual income and expenses is too narrow as it is only focused on whether expenses/income will occur in the future. Some agreed with the IASB's proposed definition, subject to materiality. A few respondents considered that the definition was too wide.

EFRAG's response to constituents' comments

EFRAG Final Position

Defining and requiring disclosures on unusual income and expenses

Considering the feedback received, EFRAG decided to continue to welcome the IASB's efforts to define unusual income and expenses and to require entities to disclose such items.

EFRAG also decided to reiterate that the definition of unusual items seems to be rather narrow, as it only focuses on whether expenses/income will occur in the future. Instead, EFRAG suggested that the IASB considers not only items that will not arise for several future annual reporting periods (as expressed in the ED) but also items that occur presently 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).

Improve existing guidance

After considering the feedback received, EFRAG decided to ask the IASB to provide more guidance to help implementation. For example, EFRAG:

- requested the IASB to further consider and test the use of the terms 'several future annual reporting periods' and 'predictive value', particularly against situations or events such as the covid19 pandemic situation;
- suggested that the IASB better articulates how the disclosure on unusual items would interact with MPMs that are adjusted subtotals of profit or loss;
- suggested that the IASB clarifies whether the IASB's proposals require income or expenses with limited predictive value to be similar both in type and amount, or fulfilling one of these two criteria is sufficient to meet the definition of unusual;
- suggested that the IASB clarifies (particularly in paragraph B69 of the ED) whether the whole amount should be recognised as unusual or only the incremental part of it (i.e. costs are outside the range of reasonably expected outcomes and not predictive of future costs) when the amount varies significantly from previous periods ;

In addition, respondents in general expressed the following concerns:

- the notions of 'several reporting periods' and 'similar in type and amount' are highly judgemental when determining whether an item is unusual or not;
- the wording unusual may raise translation issues; and
- the requirement to disclose items that meet the definition of unusual income or expenses may create confusion with the proposals on MPMs.

Improve existing guidance

Many respondents and participants in outreach events called for the IASB to improve existing guidance by changing the scope or giving more guidance to help implementation. For example, they suggested that the IASB clarifies:

- whether income and expenses would only qualify as unusual if they are not expected to recur in the future by type and amount (or either by type or amount);
- how entities should report unusual income and expenses (part that is usual and the excess that is unusual) and how unusual items would be monitored by the auditors;
- to what extent the proposals allow the presentation of unusual items on the face of the statement of profit or loss;
- the importance of neutrality of unusual items (both income and expenses are considered unusual);
- rephrases paragraph 101 of the ED so that the information provided on the note on unusual incomes and expenses adheres to the materiality principle; and
- clarifies whether the assessment of unusual income and expenses comprises the level of operating segments.

Finally, it was suggested that the IASB should test the new ED proposals in the context of COVID-19.

- considered 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;
- highlighted that there may be a tendency for preparers to continue to focus on unusual expenses rather than unusual income. Thus, EFRAG reiterated that the explanations in paragraph BC130 of the Basis for Conclusions on neutrality in relation to equivalent reporting for unusual income and expense are relevant and could be reflected in the final standard;
- suggested that the IASB reconsiders paragraph 101 of the ED so that the information provided on the note on unusual incomes and expenses adheres to the materiality principle; and
- suggested that the IASB considers linking its proposals with IFRS 8. More specifically, entities with multiple business activities should be allowed or even required to analyse and identify unusual income and expenses on a segment level.

To provide more discipline into the implementation of this requirement, EFRAG also suggested that the IASB considers requiring disclosures explaining how the definition of unusual items has been applied by the management (i.e. application policy).

Finally, EFRAG noted that the translation of term 'unusual' may raise issues in some jurisdictions.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Question 11 *Management performance measures*

In the ED, the IASB proposes to define and require entities to provide disclosures in a single note on MPMs.

In its DCL, EFRAG welcomed the IASB's efforts to provide guidance on MPMs, which are often used in practice and noted that additional guidance on non-IFRS measures could bring more transparency and consistency on their use. However, EFRAG highlighted a number of challenges in regard to the ED proposals and sought views of its constituents on a possible alternative narrower scope. EFRAG also suggested that the IASB further articulates the link between MPMs and IFRS 8 *Operating Segments*.

Information about MPMs in the financial statements

In the outreach events, in general stakeholders acknowledged and agreed that non-IFRS measures are often used in practice and more discipline could bring transparency and consistency on their use. These stakeholders, particularly users of financial statements, also acknowledged the benefit of having such measures being audited.

Nonetheless, respondents to EFRAG DCL provided split views on the IASB's proposals on MPMs:

- many respondents expressed support for the IASB's proposals on MPMs as they would improve discipline, transparency and comparability on the report of management-defined performance measures;
- many respondents disagreed with the IASB's proposals on MPMs. These respondents argued that, for example, MPMs should not be within the scope of IFRS Standards (i.e. should be limited to those that are covered by an IFRS Standard), the IASB's proposals may not bring the expected discipline in reporting outside of financial statements and there is already existing regulation concerning performance measures from ESMA.

Definition of MPMs: Public communication

When referring to the definition of MPMs in terms of the location of the performance measures (i.e. public communication) many respondents

EFRAG's response to constituents' comments

EFRAG Final Position

Information about MPMs in the financial statements

Considering the feedback received, particularly from users of financial statements, EFRAG decided to continue to support the IASB's efforts to provide guidance on MPMs as non-IFRS measures are often used in practice and additional guidance could bring more transparency and consistency in their use.

Definition of MPMs: Public communication

After considering the feedback received, EFRAG decided to invite the IASB to consider making the definition of public communication narrower by limiting it to MPMs presented in public communications released jointly with the annual or interim reports.

Definition of MPMs: Type of performance measures

After considering the feedback received, EFRAG decided to invite the IASB to not restrict the definition of MPMs to subtotals on the face of the statement of profit or loss and include also other measures, such as indicators of financial position or ratios. In addition, EFRAG invited the IASB to consider:

- excluding from the scope the measures that are required by the regulators; and
- extending the scope to cover possible MPMs presented in the financial statements but not in other public communications.

Disclosing tax and NCI effect in reconciliation

After discussing the feedback received, EFRAG decided to question whether the resulting information would actually be reliable without entities incurring incremental operational efforts to collect the required information and to prepare reliable financial information. Thus, EFRAG questioned the cost/benefit of the IASB's proposal to disclose the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation required by paragraph 106(b) of the ED.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

considered that the notion of 'public communication' was too broad. However, these respondents provided mixed views on how public communication should be defined, with a slight preference for having the definition restricted to communication released jointly with the annual or interim report.

Similarly, in the outreach activities, stakeholders provided mixed views:

- some, mainly users, considered appropriate to go for the performance measures presented in the communications issued jointly with the annual or interim results as this approach would bring the benefit of these measures being audited;
- some, mainly preparers, would prefer disclosures on performance measures that an entity presents inside the financial statements; and
- some suggested having all the information about alternative performance measures in a single place (i.e. management commentary) to avoid confusion.

Definition of MPMs: Type of performance measures

Many respondents considered that the scope of the IASB proposals in regard to the type of measure was too narrow and could be extended to include other types of measures as ratios and the measures based on the information coming not only from the statement of financial performance but also from the statement of financial position and statement of cash flows.

Similarly, in the outreach events stakeholders noted that the definition seemed to be narrow (e.g. does not include measures from balance sheet) and explained that only disclosing a narrow number of MPMs would provide an incomplete picture of the entity's performance (both users and preparers). Nonetheless, some stakeholders were concerned about presenting performance measures that would be difficult to reconcile with IFRS numbers (e.g. organic growth). Many also questioned whether other non-GAAP measures that did not meet the definition of MPMs could be presented together with MPMs and whether cross references to management report could be made.

EFRAG's response to constituents' comments

EFRAG suggested that the IASB reconsiders this requirement, such as to limit it to income tax and NCI effects only if an entity presents or discloses an adjusted Earnings Per Share (EPS ratio based on the MPM).

Interactions with IFRS 8

Finally, EFRAG decided to retain its view that the IASB has not sufficiently articulated the link between MPMs and IFRS 8 and suggests that the IASB requires an explanation of how MPMs interact with performance measures already presented under IFRS 8.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments	**EFRAG's response to constituents' comments**
Disclosing tax and NCI effect in reconciliation Many respondents considered that IASB's proposal on the calculation of the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation could be burdensome, or not cost-beneficial in every case. Overall, the respondents considered that the information in the requested detail is not stored in the financial system, because of specificity of the companies' tax activities (different local tax regimes, tax optimalisation). It was also noted that the requirement in paragraph 107 of the ED prescribing to use a simplified approach to calculate the income tax effect, mitigated the costs but it was not clear how this could provide useful information to users of financial statements. In the outreach events, some stakeholders also noted that the computation of income tax effect could be complex, particularly when there are many different tax jurisdictions and when using constant currency performance measures.	

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Question 12 *EBITDA*

In the ED, the IASB does not propose to define earnings before interest, tax, depreciation and amortisation (EBITDA). However, the IASB proposes to exempt from the disclosure requirements the subtotal 'operating profit or loss before depreciation and amortisation'.

In its DCL, EFRAG considered that it would had been useful to define EBIT and EBITDA as they are among the most used performance measures. However, as such measures have not been defined by the IASB, they should be included in the scope of the IASB's proposals regarding MPM disclosures. In addition, EFRAG suggested that the IASB clarified the principle behind the list of measures not considered to be MPMs provided in paragraph 104 of the ED.

During the outreach activities, a number of stakeholders, particularly users of financial statements, highlighted the importance of the subtotal EBITDA, which is widely used by investors, analysts and databases. These stakeholders considered that the reference to the use of 'operating profit before amortisation and depreciation' was a step forward as it was similar to EBITDA. Nonetheless, it was not clear if EBITDA was an MPM (e.g. if EBITDA is equal to 'operating profit before amortisation and depreciation' whether it would still be an MPM). If so, then it had to be clearly identified and disclosed. In addition, some stakeholders suggested that the IASB considers including the subtotal 'operating profit before amortisation, depreciation and impairment' in paragraph 104 of the ED. Finally, respondents to EFRAG DCL provided split views on the IASB's proposals on EBITDA:

- many respondents considered that it was necessary to define EBITDA as it is one of the most used performance measures; and
- many respondents did not consider it was necessary to define EBITDA. One respondent detailed that EBITDA did not serve a clear purpose in the context of IFRS Standards. Another respondent argued that the IASB should not venture into regulating performance measures and should instead leave this to regulators.

EFRAG's response to constituents' comments

EFRAG Final Position

After considering the feedback received, EFRAG decided to acknowledge that there are mixed views as to whether EBITDA should be defined and to agree with the reasons provided by the IASB to not define EBITDA and other similar measures.

As such measures have not been defined by the IASB, EFRAG decided to reiterate that EBITDA and other similar measures should be included in the scope of the IASB's proposals regarding MPM disclosures (which requires reconciliation with the most directly comparable IFRS specified subtotal).

In addition, EFRAG suggested that the IASB clarifies the principle behind the list of measures not considered to be MPMs provided in paragraph 104 of the ED. This is because the description of the measures, included in the list, may be misleading and the reasons to include or exclude measures from the list are unclear, indicating that the list is rules-based. For example, EFRAG noted that users of financial statements challenged the IASB's proposal to exempt from the MPM's disclosure requirements the subtotal 'operating profit or loss before depreciation and amortisation' as EBITDA typically excludes impairments from assets that are amortised or depreciated.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Question 13 *Statement of cash flows*

In section 1 of the DP, the IASB proposes to amendment IAS 7 *Statement of Cash Flows* to require the operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities. In addition, the IASB proposes the removal of classification options of interest and dividend cash flows in IAS 7.

In its DCL, EFRAG supported the IASB's proposal to require entities to use the 'operating profit or loss' as the starting point for the statement of cash flows when using the indirect method as it improved comparability and reconciled the operating category in the statement of profit or loss with the operating activities in the statement of cash flows. EFRAG also supported the removal of options for the classification of interest and dividends in the statement of cash flows for non-financial entities as it would improve comparability. However, EFRAG suggested that the IASB had a separate project on IAS 7 with the objective of having a comprehensive review of the challenges that arise in practice (e.g. financial institutions) and improve consistency with the new structure of the statement of profit or loss.

Starting with operating profit or loss

The majority of the respondents welcomed the IASB's proposal to require the 'operating profit or loss' as a starting point for the indirect reconciliation of cash flows from operating activities in the statement of cash flows. Some of the respondents agreed with EFRAG's tentative position that this will improve comparability and standardise to an extent the adjustments made to the operating profit or loss in the operating cash flow category.

Elimination of options

Many of the respondents agreed with EFRAG's position for removing the classification options for interest and dividend cash flows. This would improve comparability and provide better alignment with the entity's activities. However, some respondents strongly disagreed with the proposal to present cash interest payments in cash flows from financing activities and cash interest income in cash flows from investing activities

EFRAG's response to constituents' comments

EFRAG Final Position

Considering the feedback received, EFRAG decided to retain its initial position. More specifically to:

- support the IASB's proposal to require entities to use the 'operating profit or loss' as the starting point for the indirect reconciliation of cash flows from operating activities in the statement of cash flows, as it specifies a consistent starting point for the indirect method of reporting cash flows from operating activities. It also reconciles the operating category in the statement of profit or loss with the operating activities in the statement of cash flows;
- support the removal of options for the classification of interest and dividends in the statement of cash flows for non-financial entities. This will improve consistency in presentation of similar line items and will better reflect the nature of the respective cash flows. EFRAG observes that some of those line items will be classified into different categories in the statement of cash flows and the statement of profit or loss; and
- suggest that the IASB has a separate project on IAS 7 with the objective of having a comprehensive review of the challenges that arise in practice (e.g. financial institutions) and improve consistency with the new content and structure of the statement of profit or loss.

EFRAG included its comments on the labelling of the categories in Question 1 of the ED.

as it would severely jeopardise the comparability between IFRS Standards and U.S. GAAP financial statements.

Financial institutions

Some respondents noted that the statement of cash flows for the financial industry might not convey useful and relevant information to the users and a more fundamental change is needed.

One respondent commented that for a financial entity the proposed approach to classify interest and dividend cash flows was rather technical and complex to read.

Labelling

Many respondents noted that the usage of the terms 'operating', 'investing' and 'financing' was inconsistent across the statement of profit or loss and the statement of cash flows which could create confusion and reduce understandability.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Question 14 *Other comments*

In the ED, the IASB asked whether constituents had any other comments on the ED.

In its DCL, EFRAG considered that the IASB could further explain how entities with different business activities should prepare their financial statements, especially when considering the example provided by the IASB in paragraph IE11 of the Illustrative Examples. EFRAG also did not consider that the IASB's proposals on other comprehensive income ('OCI') were a significant improvement as they simply modified the labelling of OCI line items. EFRAG also provided a number of additional suggestions to improve presentation in the primary financial statements in the other comments section.

Many respondents agreed with EFRAG proposal (paragraph 249 of the DCL) that for entities operating in different business industries the IASB should consider providing more guidance for the presentation of revenues and costs when they are allocated to different business activities on the face of the statement of profit or loss, including consistency with IFRS 8 and disclosure on judgment applied in the allocation process.

Some respondents considered that the proposed changes to the statement of other comprehensive income in paragraph 74 were minor changes in wording and are unlikely to significantly improve understandability. Thus, recommended that the proposed wording and its extent are reviewed more fully as part of a separate project.

Some respondents recommended that consideration is given to the practicalities and timescales of implementation of IFRS 17 together with any new standards or amendments arising from the ED and noted that the proposed time of 18 to 24 month for a retrospective first-time application was not sufficient.

Respondents also raised a number of other specific comments such as taxonomy, illustrative examples and interim financial statements.

EFRAG's response to constituents' comments

EFRAG Final Position

Considering the feedback received, EFRAG decided to maintain its initial position. Nonetheless, it decided to reflect some of the concerns raised by its constituents. In particular, EFRAG decided to recommend that consideration is given to the practicalities and timescales of implementation of IFRS 17 together with any new standards or amendments arising from the ED.

EFRAG also decided to highlight that the proposed time of 18 to 24 months for a retrospective first-time application may not be sufficient, particularly if the IASB decides to proceed with all its proposals (e.g. disclosures by nature when presenting by function).

Appendix 1: List of respondents

Table 1: List of respondents

Name of constituent	Country	Type / Category
Soren Ploschke	Germany	Individual Person
Comissão de Normalização Contabilistica (CNC)	Portugal	National Standard Setter
Accountancy Europe (AE)	Europe	Professional Organisation
Erste Group	Austria	Preparer
European Securities and Markets Authority (ESMA)	Europe	Regulator
KBC Group	Belgium	Preparer
Danish Accounting Standards Committee (DASC)	Denmark	National Standard Setter
The European Savings and Retail Banking Group (ESBG)	Europe	Preparer organisation
Suez	France	Preparer
Allianz	Germany	Preparer
Dutch Accounting Standard Board (DASB)	Netherlands	National Standard Setter
Aviva	UK	Preparer
European Federation of Financial Analysts Societies (EFFAS)	European	User organisation
Institute of Chartered Accountants in England and Wales (ICAEW)	UK	Professional organisation
Swedish Enterprise Accounting Group (SEAG)	Sweden	Preparer organisation
Volkswagen	Germany	Preparer
Renault	France	Preparer
El Instituto de Contabilidad y Auditoria de Cuentas (ICAC)	Spain	National Standard Setter
Instituto Español de Analistas Financieros (IEAF)	Spain	User organisation
Association for Financial Markets in Europe (AFME)	UK	Market organisation
Insurance Europe	Europe	Preparer organisation
Norwegian Accounting Standards Board (NASB)	Norway	National Standard Setter
Swedish Financial Reporting Board (SFRB)	France	Preparer organisation

UKFRC	UK	National Standard Setter
BusinessEurope	Europe	Preparer organisation
European Fund and Asset Management Association (EFAMA)	Europe	Preparer organisation
Corporate Reporting Users' Forum (CRUF)	UK	User organisation
GSK	UK	Preparer
Accounting Standards Committee of Germany (ASCG)	Germany	National Standard Setter
BASF	Germany	Preparer
ABAF/BVFA	Belgium	User organisation
Austrian Financial Reporting and Auditing Committee (AFRAC)	Austria	National Standard Setter
ABI	UK	Preparer Organisation
Organismo Italiano di Contabilità (OIC)	Italy	National Standard Setter
Suedzucker	Germany	Preparer
L'Autorité des normes comptables (ANC)	France	National Standard Setter