

# PRIMARY FINANCIAL STATEMENTS

EFRAG Board Meeting

18 December 2019



European Financial Reporting Advisory Group

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# OVERVIEW

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OVERALL APPROACH OF THE IASB PROJECT

SCOPE OF THE PROJECT

IMPACT ON FINANCIAL INSTITUTIONS



# OVERALL APPROACH OF THE IASB PROJECT

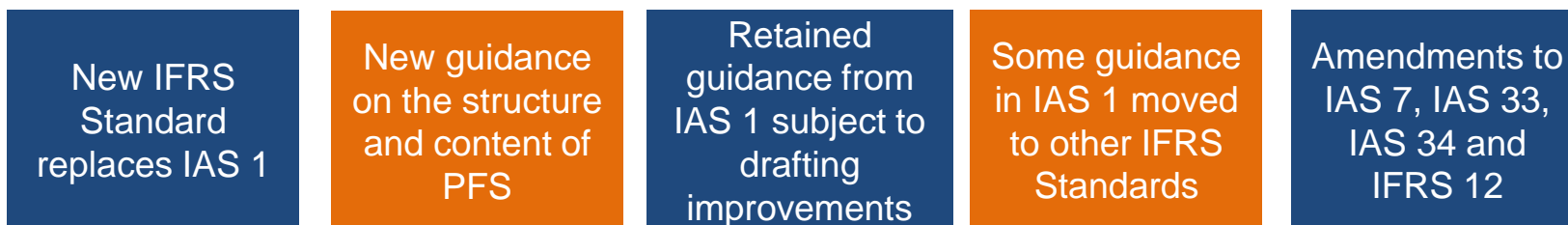
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**OBJECTIVE:** Improvements to the structure and content of the primary financial statements, with a focus on the statement(s) of financial performance

## PROJECT TIMELINE



## EXPOSURE DRAFT STRUCTURE (EXPECTED)



# SCOPE OF THE PROJECT - IASB PROPOSALS

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## Statement of Financial Performance

New subtotals and categories to improve comparability between entities

New disclosures on Management Performance Measures to improve transparency and discipline on their use

Improving communication of OCI

## Statement of cash flows

New starting point for the indirect method: operating profit

Elimination of classification options (interest and dividends)

Prescribing classification of cash flows related to associates and joint ventures

## Other improvements to the structure and content of financial statements

Introducing principles of disaggregation in financial statements

Requiring disaggregation by nature or by function in the statement of financial performance

Requiring disclosure of unusual items

Requiring minimum line items in the primary financial statements

Developing illustrative examples of primary financial statements for a small number of industries

# SCOPE OF THE PROJECT

## NEW SUBTOTALS AND CATEGORIES

Revenue	X
Changes in inventories of finished goods and work in progress	X
Raw materials and consumables used	X
Employee benefits expense	X
Depreciation and amortisation expenses	X
Impairment losses on PPE	X
<b>Operating profit</b>	<b>X</b>
Share of results of integral associates and joint ventures	X
<b>Operating profit and share of profit or loss of integral associates and joint ventures</b>	<b>X</b>
Fair value changes in the fair value of financial assets	X
Dividends income	X
Share of results of non-integral associates and joint ventures	X
<b>Profit before financing and income tax</b>	<b>X</b>
Interest income from cash and cash equivalents	X
Expenses from financing activities	X
Unwinding of discount on pension liabilities and provisions	X
<b>Profit before tax</b>	<b>X</b>
Income tax expense	X
<b>Profit for the year from continuing operations</b>	<b>X</b>
Loss from discontinued operations	X
<b>Profit for the year</b>	<b>X</b>

**Operating section** and presentation of integral associates and joint-ventures

**Investing section**, including non-integral associates and joint-ventures

**Financing section** that enable comparison of entities with different capital structures

# SCOPE OF THE PROJECT

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## OTHER IASB'S PROPOSALS ON FINANCIAL PERFORMANCE

- **Financing activities:** receipt or use of a resource from a provider of finance who expects reimbursement and a compensation (finance charge)
- **Investing activities:** income/expenses from assets that generate a return individually and largely independently of other resources held by the entity
- **'Integral' and 'non-integral' associates and joint ventures:** present them separately in the statement of financial performance
- Presentation of analysis of **expenses by nature or by function (no mix)** in the statement of financial performance
- **Definition of and disclosures on unusual items**, attributed to line items in the statement of financial performance
- **Aggregation and disaggregation:** improved principles, definitions and new guidance

# SCOPE OF THE PROJECT

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## MANAGEMENT PERFORMANCE MEASURES

- Subtotals used in public communications outside financial statements
- Complements totals or subtotals included in IFRS Standards
- Management's view when communicating an entity's financial performance
- Reconciliation with most comparable total or subtotal specified by IFRS Standards, including the effect of tax and non-controlling interest (NCI)
- Requirements on its description and consistent presentation in single a note

Reconciliation from MPM to IFRS Measures		Tax effect	NCI effect
<b>Adjusted operating profit (MPM)</b>	<b>4 400</b>		
Restructuring expenses	(1 000)	200	(50)
Impairment of asset B	(400)	80	
<b>Operating Profit (IFRS-Specified)</b>	<b>3 000</b>		



# SCOPE OF THE PROJECT

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## STATEMENT OF CASH FLOWS

Cash flow Item	IAS 7	Corporates	Financial Institutions
Interest paid	Operating or financing	Financing	Operating or financing *
Dividends paid	Operating or financing	Financing	Financing
Interest received	Operating or investing	Investing	Operating, investing or financing *
Dividends received	Operating or investing	Investing	Operating or investing* (always investing for equity accounted investments)

**\* Depends on classification of related income/expenses in P&L**

# IMPACT ON FINANCIAL INSTITUTIONS

## BANK WITH INVESTING AND FINANCING CUSTOMER ACTIVITIES

Interest income	X
Interest expense	X
<b>Net interest income</b>	<b>X</b>
Fee and commission income	X
Fee and commission expense	X
<b>Net fee and commission income</b>	<b>X</b>
Net trading income	X
Net investment income	X
Credit impairment losses	X
Employee benefits expense	X
Depreciation and amortisation expenses	X
<b>Operating profit</b>	<b>X</b>
Share of results of integral associates and joint ventures	X
<b>Operating profit and share of profit or loss of integral associates and joint ventures</b>	<b>X</b>
Share of results of non-integral associates and joint ventures	X
Unwinding of discount on pension liabilities and provisions	X
<b>Profit before tax</b>	<b>X</b>
Income tax expense	X
<b>Profit for the year</b>	<b>X</b>

Entities that **'provide financing to customers'** may include in operating profit all expenses from financing activities **or** only those related to the provision of financing to customers

Income and expenses from **investments made in the 'course of the entity's main business activity'** are included in operating profit

Entity does not present 'profit before financing and income tax' subtotal



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