



IFRS® Foundation

# Primary Financial Statements

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# Agenda

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Project overview

Subtotals

Management performance measures

Disaggregation and other topics

A grayscale world map is centered in the background. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. A network of thin, dotted white lines is also visible, connecting various points across the map, suggesting a global network or data flow.

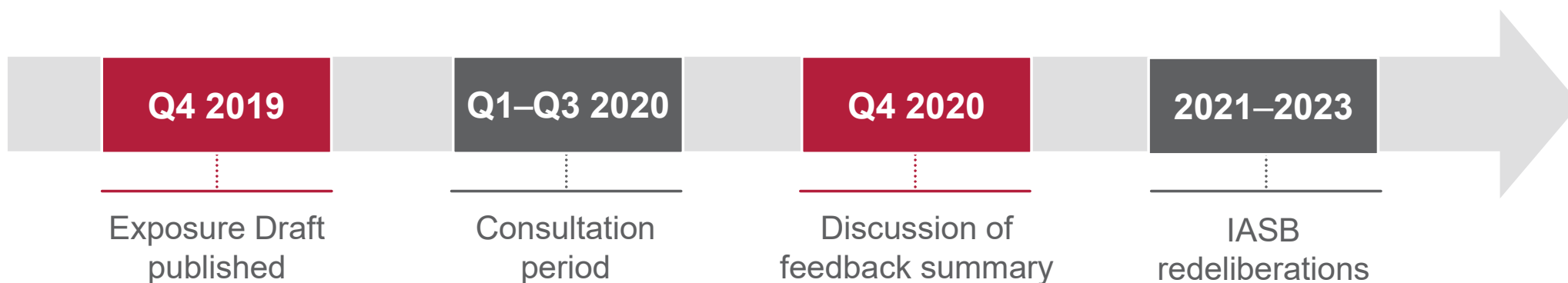
# Project overview

# Introduction

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- In March 2021, the IASB began redeliberating the proposals in response to feedback received on the Exposure Draft *General Presentation and Disclosures*
- The IASB has made key decisions in relation to key topics of subtotals and management performance measures and is progressing work on disaggregation
- The IASB is seeking stakeholder feedback on targeted aspects of its tentative decisions to date
- As background information the following slides detail the main proposals in the Exposure Draft updated to reflect the IASB's tentative decisions to July 2022

# Project overview



## Objective

- Improve communication in financial statements
- Focus on information included in the statement of profit or loss

## Main proposals

- 1 Require additional **defined subtotals** in statement of profit or loss
- 2 Require disclosures about **management performance measures**
- 3 Strengthen requirements for **disaggregating information**

A dark gray background featuring a light gray world map. Overlaid on the map are several curved, concentric lines and a network of dotted lines, suggesting a global or data-related theme.

# Subtotals

# What is the issue?

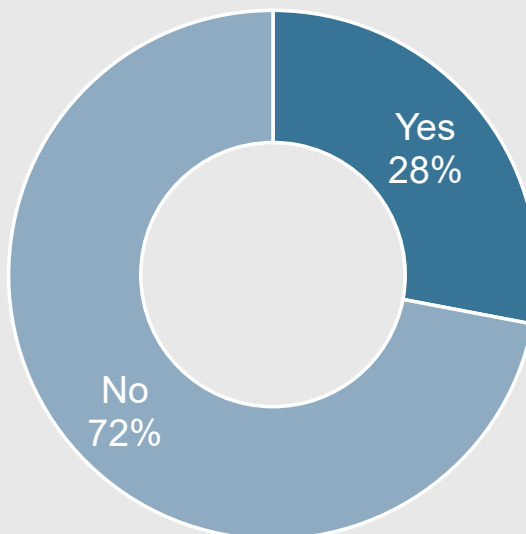
No subtotals defined by IFRS Accounting Standards between 'revenue' and 'profit or loss'



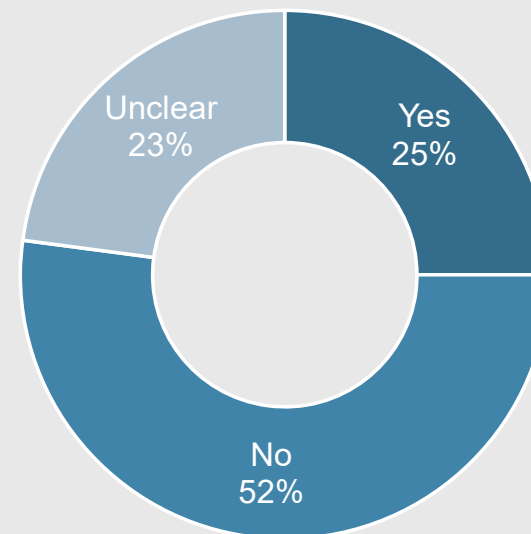
Companies calculate subtotals in different ways

In a sample of 100 companies, we found that 63 companies reported operating profit in the financial statements, **using at least nine different definitions**

Share of profit or loss of associates and joint ventures included in operating profit?



Interest cost on defined benefit pension liabilities included in operating profit?



## What are the new subtotals and categories? (1/2)

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- To address diversity in subtotals presented in the statement of profit or loss the IASB is proposing to introduce two new subtotals:
  - Operating profit; and
  - Profit before financing and income tax
- To enhance comparability of information provided in the statement of profit or loss, the IASB also proposes to introduce three categories for classifying income and expenses:
  - Operating;
  - Investing; and
  - Financing
- The following slide is an example of the statement of profit or loss including the proposed subtotals and categories



# What are the new subtotals and categories? (2/2)

Revenue
Other income
Changes in inventories of finished goods and work in progress
Raw materials used
Employee benefits
Depreciation
Amortisation
Professional fees and other expenses
<b>Operating profit</b>
Income and expenses from associates and joint ventures
Income and expenses from investments, including cash and cash equivalents
Incremental expenses from investments
<b>Profit before financing and income tax</b>
Income and expenses from liabilities that arise from transactions that involve only raising of financing
Specified income and expenses on other liabilities
<b>Profit before tax</b>
Income tax
<b>Profit for the year</b>

Operating

Investing

Financing

# What is in the operating category?

 Includes, **but is not limited to**, income and expenses from an entity's main business activities

Defined as a default—includes income and expenses not classified in other categories

- Works for **different business models**.
- A direct definition would require **significant judgement** which may result in operating profit not being comparable.
- Avoids creation of a '**non-operating**' category that is neither operating, investing or financing, which may be used opportunistically.

Includes volatile and unusual income and expenses arising from an entity's operations

- The category is intended to provide a **complete** picture of the entity's operations for the period.
- **Disclosure** requirements for unusual income and expenses. ★

★ Proposal to be redeliberated in a future IASB meeting

# What is in the investing category?

Income and expenses from associates and joint ventures accounted for using the equity method


Income and expenses from assets that generate a return individually and largely independently of other resources held by an entity, including cash and cash equivalents

Incremental expenses that the entity would not have incurred had the investments giving rise to the income and expenses from investments not been made



## Examples (classified in the operating category when invest as a main business activity)

- rental income and remeasurements of investment property
- interest income and fair value changes on financial assets
- dividends and fair value changes on non-consolidated equity investments

 Proposal to be redeliberated in a future IASB meeting

# What is in the financing category?

All income and expenses from liabilities that involve only the raising of finance ★

A transaction that involves:

- the receipt by the entity of cash, an entity's own equity instruments or a reduction in a financial liability; and
- the return by the entity of cash or an entity's own equity instruments

eg typical loan contract involves the receipt of cash and return of cash

Specified income and expenses from other liabilities ★

For other liabilities, including lease liabilities, classify **interest expense and the effect of changes in interest rates** in the financing category when such amounts are identified applying the requirements of IFRS Accounting Standards (eg IAS 19 or IAS 37)

eg lease liability involves receipt of right-of-use asset and return of cash

Facilitates an analysis of an entity's performance independently of how the entity is financed

★ Incremental expenses related to the financing category to be discussed in a future IASB meeting

★ Change in classification of income and expenses within the financing category, including the impact on entities that provide financing to customers as a main business activity, included in targeted outreach topics

# How will FX gains or losses be classified?

FX gains and losses are classified in same category as income or expense giving rise to gain or loss, unless it results in undue cost or effort

Exchange differences not classified in other categories and cases that involve undue cost or effort

Operating category

Exchange differences on cash and cash equivalents

Investing category

Exchange differences on investments  
(eg on foreign currency denominated bonds)

Investing category

Exchange differences related to financing activities  
(eg on foreign currency denominated debt)

Financing category

# How will gains or losses from derivatives and risk management be classified?

		Derivatives	Non-derivative financial instruments
Used for risk management	Designated as a hedging instrument	Include in the category affected by the risk the entity intends to manage, except when it would involve grossing up gains and losses—then include in the operating category	Apply definitions for categories
	Not designated	Classify as above except when it involves undue cost or effort—then include in the operating category	
Not used for risk management		Include in the operating category, unless relates to financing activities and not used in the course of main business activities	

# How will income and expenses from hybrid instruments be classified?

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## For hybrid contracts with host liabilities and embedded derivatives

Income and expenses related to contracts that are not separated

Income and expenses related to separated host liabilities

Income and expenses related to separated embedded derivatives

Classify in the same way as income and expenses related to other liabilities

Classify in the same way as income and expenses related to stand-alone derivatives

★ Discuss in a future IASB meeting the disclosure requirements when an entity designates an entire hybrid contract as at fair value through profit or loss

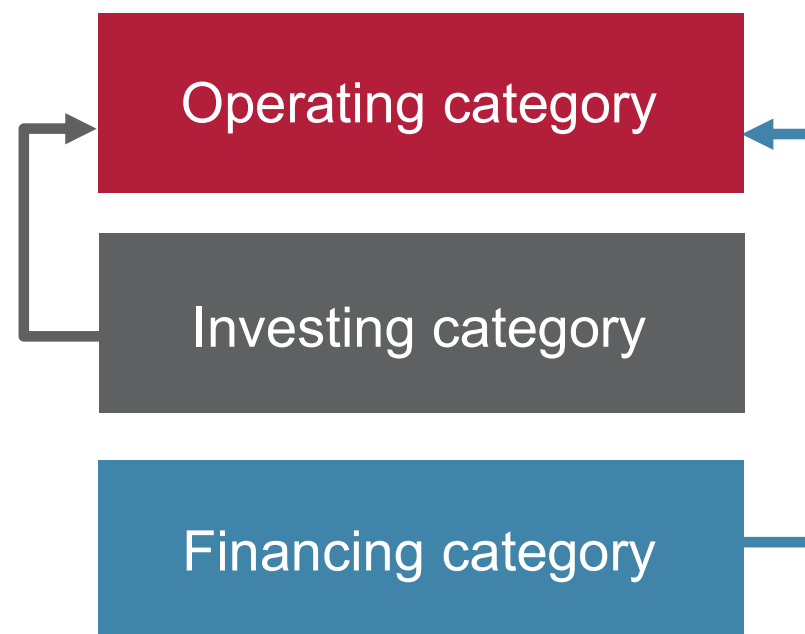
# Entities with specified main business activities

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Operating profit is intended to include, but is not limited to, income and expenses from an entity's main business activities



The IASB proposes requirements for some entities, such as banks, to classify income and expenses in the operating category that would otherwise be classified in the investing or financing categories

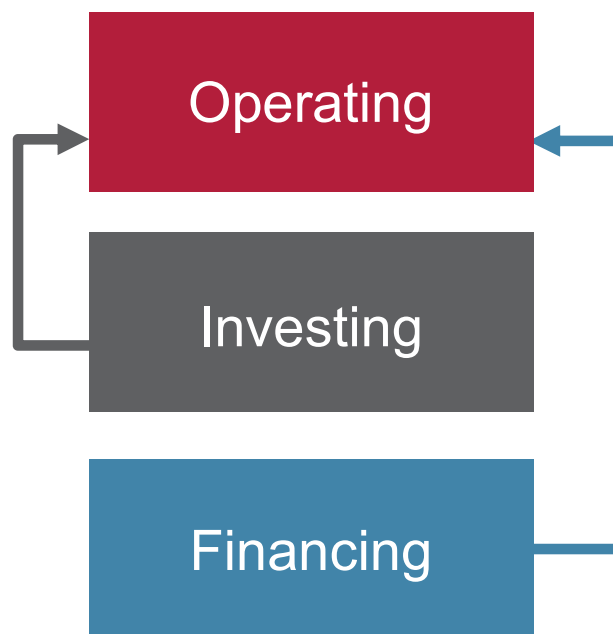




# Entities with specified main business activities

Income and expenses from investing as a main business activity included in operating profit

- Examples may include insurers, investment entities and investment property companies
- Also applies to income and expenses from associates and joint ventures not accounted for using the equity method
- **Does not** apply to income and expenses from associates and joint ventures accounted for using the equity method which are classified outside of operating profit by all entities



Income and expenses from transactions that involve only the raising of finance included in operating profit

- Only applicable to entities providing financing to customers as a main business activity
- Examples may include banks and entities that provide financing to customers to purchase the entity's products
- Accounting policy choice whether to move *all* such income and expenses or *only* those related to providing financing to customers
- Specified income and expenses from other liabilities remain classified in the financing category

★ Proposal to be redeliberated in a future IASB meeting

# How will income and expenses from cash and cash equivalents be classified?

Classification of income and expense from cash and cash equivalents depends on an entity's main business activities

Entities without specified main business activities

Entities that invest in only non-financial assets as a main business activity

Entities that invest in financial assets as a main business activity

Entities that provide financing to customers as a main business activity but do not invest in financial assets as a main business activity

Investing category

Operating category

Investing category

★ Included in targeted outreach topics—The Exposure Draft proposed an accounting policy choice to classify either all or the portion of cash and cash equivalents related to provision of financing to customers in the operating category. The IASB tentatively agreed in July 2022 to explore in targeted outreach removing this accounting policy choice and classifying in the investing category

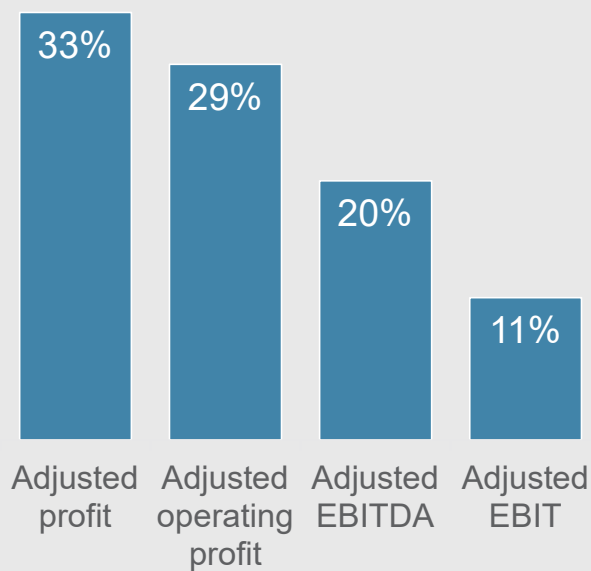
★ Proposal to be redeliberated in a future IASB meeting

A dark gray background featuring a stylized world map. The map is overlaid with several curved, light gray lines that sweep across the continents. Dotted white lines form a grid pattern across the map, representing latitude and longitude. The overall aesthetic is modern and professional.

# Management performance measures

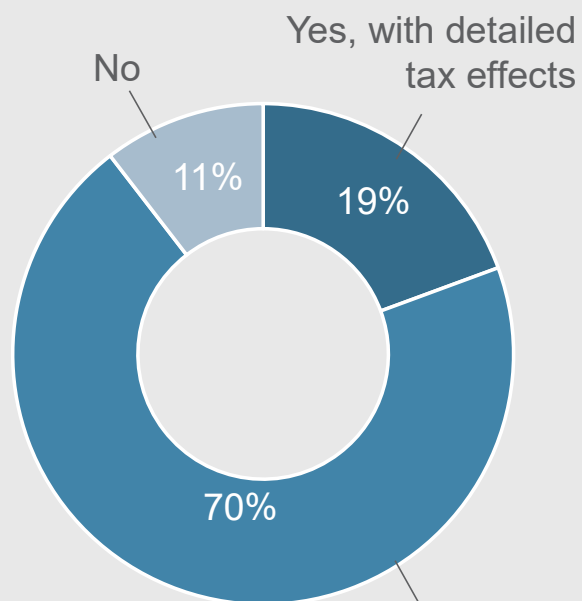
# What is the issue?

## Common management-defined performance measures



% of companies using measure in annual report

## Is a reconciliation provided to a measure specified by IFRS Accounting Standards?



Yes, with limited or no information on tax effects

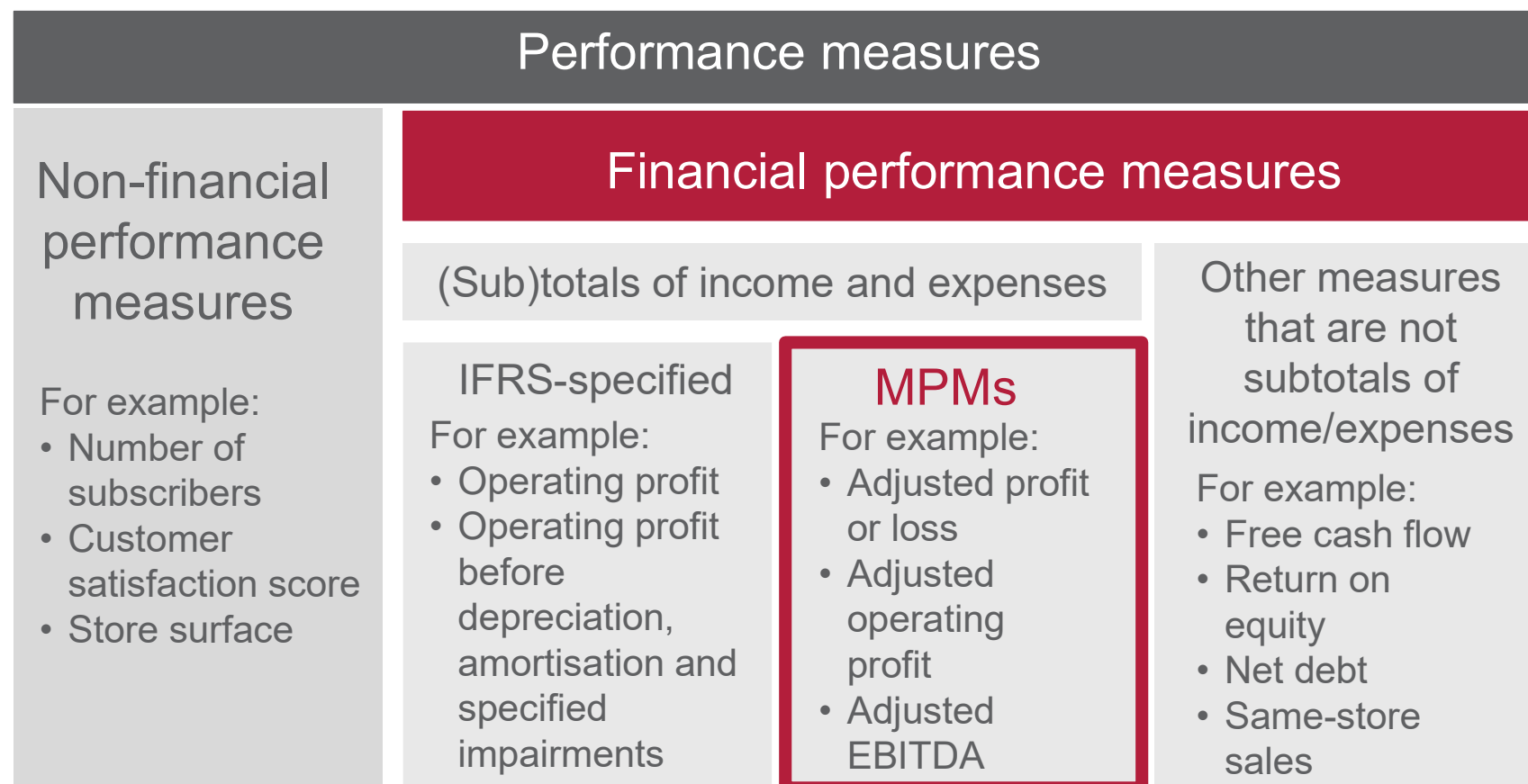
- Many companies provide performance measures defined by management in communications with investors
- Investors have said such measures can provide useful information, but should be used in a more transparent and disciplined way

## What are MPMs? (1/2)

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- The IASB is proposing to define a subset of non-GAAP measures as management performance measures ('MPMs') and require their disclosure in the financial statements along with disclosure requirements that will improve the transparency and discipline in their reporting
- Management performance measures are a subset of non-GAAP measures consistent with the project focus on improving reporting of financial performance in the statement of profit or loss and the related notes
- Many commonly reported non-GAAP measures and measures specified in IFRS Accounting Standards will not be management performance measures as demonstrated in the following slide

## What are MPMs? (2/2)



# How will MPMs be defined?

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Subtotals of income and expenses not specified by IFRS Accounting Standards that:

are used in public communications outside financial statements (excluding oral communications, transcripts and social media posts)



communicate management's view of an aspect of an entity's financial performance

Rebuttable presumption that a subtotal used in public communications represents management's view of an aspect of an entity's financial performance – rebutted with reasonable and supportable evidence



 Included in targeted outreach topics

# What disclosures will be required for MPMs?

Reconciliation	Reconciliation between MPM and the most directly comparable subtotal or total specified by IFRS Accounting Standards, including the income tax effect and effect on non-controlling interests. ★ ★
Why an MPM communicates management's view	Includes an explanation of how the MPM is calculated and how the measure provides useful information about the entity's performance. Explanation should refer to individual reconciling items where necessary.
Not necessarily comparable with other entities	A statement that MPM provides management's view of an aspect of the entity's financial performance and is not necessarily comparable with measures provided by other entities.
Changes in calculation	Explanation of any changes in how the entity calculates its MPMs or which MPMs it provides. ★

★ Aspects of proposal to be redeliberated in a future IASB meeting

★ Calculation of tax effect included in targeted outreach topics



# What will a reconciliation look like?

Adjusted operating profit (MPM)	52,870	Tax	NCI
Restructuring in Country X (incl. in employee benefits)	(5,400)	900	(1,020)
Revenue adjustment (incl. in revenue)	(6,200)	1,550	-
<b>Operating profit (IFRS-specified)</b>	<b>41,270</b>		




## Most directly comparable subtotal/total specified by IFRS Accounting Standards—can be:

- any of the subtotals required by paragraph 81A of IAS 1;
- any of the two subtotals proposed in this project;
- profit before tax, profit from continuing operations;
- measures similar to gross profit; or
- operating profit before depreciation, amortisation and specified impairments



Simplified approach to calculating the tax effect



 Aspects of proposal to be redeliberated in a future IASB meeting

 Included in targeted outreach topics

## How does EBITDA fit in the proposals?

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The IASB is proposing to define **‘operating profit before depreciation, amortisation and specified impairments’**

- Would be allowed but not required to be reported.
- If used, no MPM disclosures would be required for this measure.
- The IASB will not explicitly prohibit ‘EBITDA’ as a label for ‘operating profit before depreciation, amortisation and specified impairments’, but will explain in the Basis for Conclusions that such a label would rarely be a faithful representation of it.

A grayscale world map is the background for the top half of the slide. Overlaid on the map are several curved, concentric lines that sweep across the globe from the bottom left towards the top right. Some of these lines are solid, while others are dotted. The overall aesthetic is clean and professional.

# Disaggregation and other issues

# What is the issue?

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Entities sometimes provide information that is too aggregated or incomplete so investors don't get the information they need for their analysis

# What will be the disaggregation requirements?

## General requirements and required line items

Roles of the primary financial statements (PFS) and the notes

Principles for aggregation and disaggregation ★

Required line items

Grouping dissimilar immaterial items, avoiding 'other' labels ★

## Specific requirements

Report operating expenses by nature and by function (mixed approach permitted)  
Disclosure of amounts included in each line item of profit or loss for depreciation, amortisation and employee benefits ★ ★



Disclosure of unusual income and expenses (*details of proposal will be sent at a later date*) ★ ★


★ Aspects of proposal to be redeliberated in a future IASB meeting

★ Included in targeted outreach topics

# What would be the general requirements?

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Roles of PFS and the notes	<ul style="list-style-type: none"><li>• Describe the roles of PFS and the notes and refer to understandability in the description of the role of PFS</li></ul>
Principles for aggregation and disaggregation	<ul style="list-style-type: none"><li>• Single dissimilar characteristic can be enough to disaggregate if it is material</li><li>• Application guidance on when disaggregation in the notes would result in material information and when disaggregation in the PFS would result in a more understandable overview</li></ul> 
Required line items	<ul style="list-style-type: none"><li>• New required line items, including operating profit, profit before financing and income tax and goodwill in the statement of financial position</li></ul>
Grouping dissimilar immaterial items, avoiding 'other' labels	<ul style="list-style-type: none"><li>• Use meaningful labels for groups of immaterial items, avoiding line items such as 'other expenses'.</li><li>• If that is not possible, entities required to provide information in the notes about the content of such groups of items</li></ul> 

 Proposals to be discussed at future IASB meetings

# Disclosure of operating expenses by nature

ED proposed that an entity that reports expenses by function in the statement of financial performance to disclose in the notes an analysis of its total operating expenses by nature



Some respondents (users, standard-setters and accountancy bodies) agreed

Some respondents (preparers and their representative bodies) disagreed



To achieve a more balanced outcome between costs for preparers and benefits for users the IASB has tentatively decided:

- to require an entity to disclose the amounts of depreciation, amortisation and employee benefits included in each line item in the statement of profit or loss; and
- to explore in targeted outreach an approach that would require an entity to disclose, for all operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss ('a general requirement')



Proposal to be discussed at future IASB meetings



Included in targeted outreach topics

# Changes to the statement of cash flows

Operating profit or loss subtotal to be the starting point for the indirect method of reporting cash flows from operating activities

Dividends received	▶	Investing category
Dividends paid	▶	Financing category
Interest paid	▶	Financing category
Interest received	▶	To be discussed at a future IASB meeting ★

★ Classification of dividends and interest paid and received by entities with specified main business activities to be discussed at a future IASB meeting



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