
Global Preparers Forum

Date	3 March 2023
Project	Primary Financial Statements
Topic	Effects analysis, transition period and effective date
Contacts	Yoshiki Kashioka (yoshiki.kashioka@ifrs.org) Roanne Hasegawa (rhasegawa@ifrs.org)

This paper has been prepared for discussion at a public meeting of the Global Preparers Forum (GPF). This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB *Update*.

Purpose of this session

The purpose of this session is:

1. to update GPF members on the primary financial statements project (slides 4–6); and
2. to obtain input from GPF members:
 - a. on factors that IASB should consider in determining the transition period and effective date of the forthcoming IFRS Accounting Standard *General Presentation and Disclosures* (slides 7–9); and
 - b. to understand the expected benefits and costs for preparers of the forthcoming IFRS Accounting Standard to help develop the Effects Analysis that will be published with the Accounting Standard (slides 14–19).

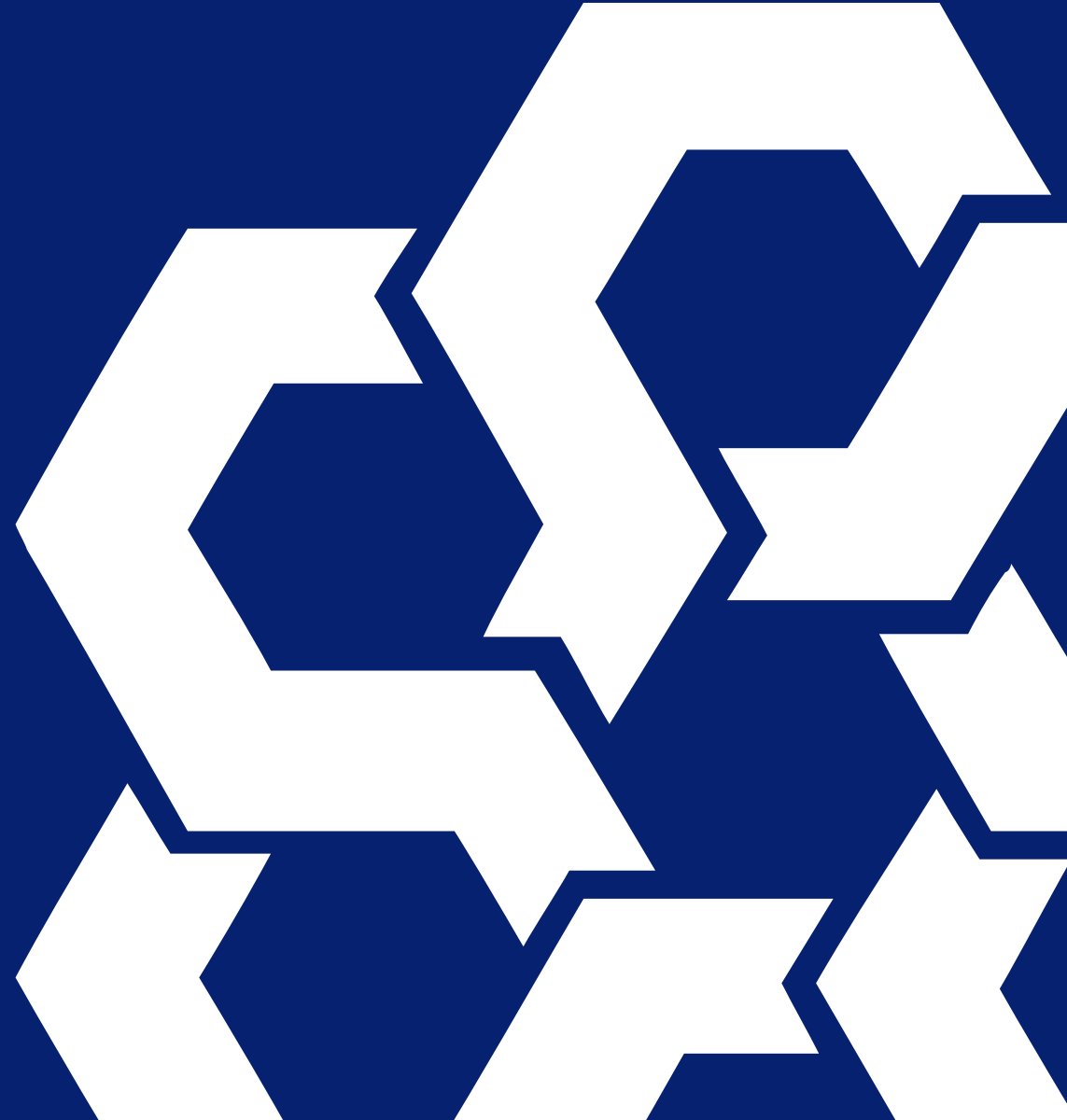
The appendix contains an overview of the key proposals (slides 20–38).

At the joint meeting of the CMAC and GPF on 15–16 June 2023 we plan to discuss the illustrative examples which will be included in the forthcoming IFRS Accounting Standard

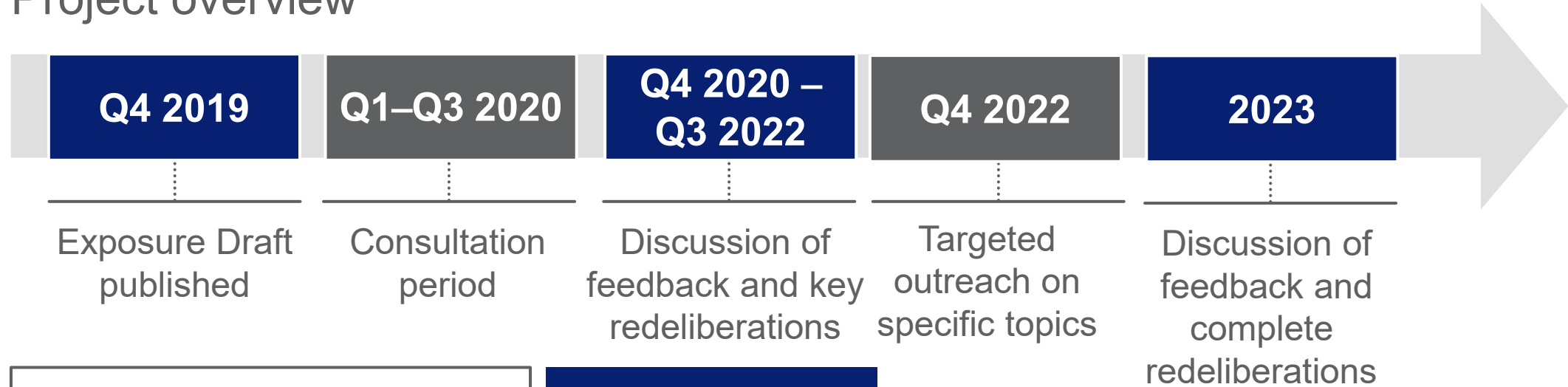
Questions for GPF members

1. What information needed to apply the requirements in the new IFRS Accounting Standard would you have readily available?
2. What new information will you need to gather to apply the requirements in the new IFRS Accounting Standard? Please explain:
 - (a) which new information is likely to be easily obtainable, for example, because of similar requirements in local laws or regulations; and
 - (b) which new information is likely to require changes in systems and processes to gather and what is the extent of changes that are likely to be required.
3. Are you planning to apply early the new IFRS Accounting Standard? Please explain why.
4. Do you have any comments on the expected benefits and costs to preparers shown on slides 15–19?

Overview of the Primary Financial Statements Project



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**

Overview of feedback from targeted outreach conducted in Q4 2022

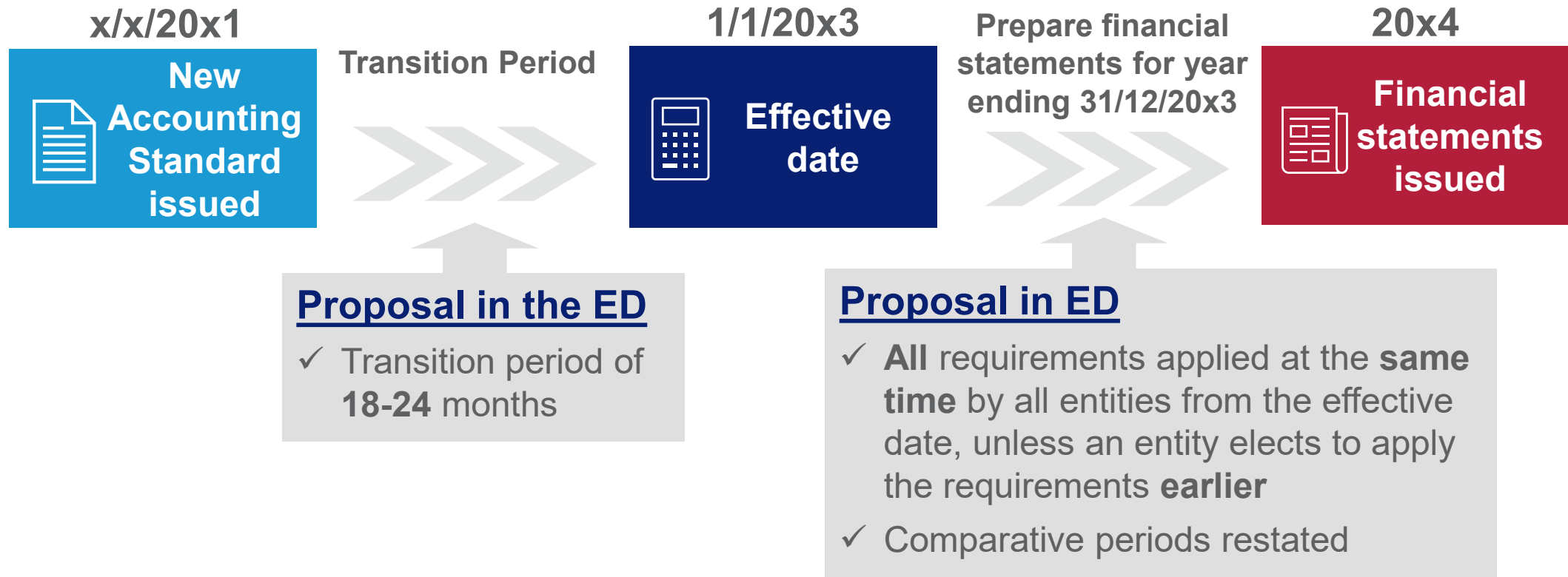
<p>Overall comments</p>	<ul style="list-style-type: none"> • Most supported the direction of the redeliberations and would like to see the project completed as soon as possible
<p>Subtotals and categories</p>	<ul style="list-style-type: none"> • Most agreed with the revised approach for classifying income and expenses in the financing category but requested additional guidance • Some disagreed with classifying income and expenses from associates and joint ventures accounted for using the equity method in the investing category 
<p>Management performance measures (MPMs)</p>	<ul style="list-style-type: none"> • Many supported the rebuttable presumption in the definition of MPMs (see slide 32) but requested additional guidance • Many supported the simplified tax calculation for reconciling items but some challenged the usefulness of the information or expressed concerns about the cost of the proposal 
<p>Disaggregation</p>	<ul style="list-style-type: none"> • Most agreed with the revised proposal to disclose the amounts of depreciation, amortisation and employee benefits included in each line item • Some supported adding impairments and write-downs of inventory to the revised proposal 

 *Feedback that will be considered at a future IASB meeting*

Transition period and effective date



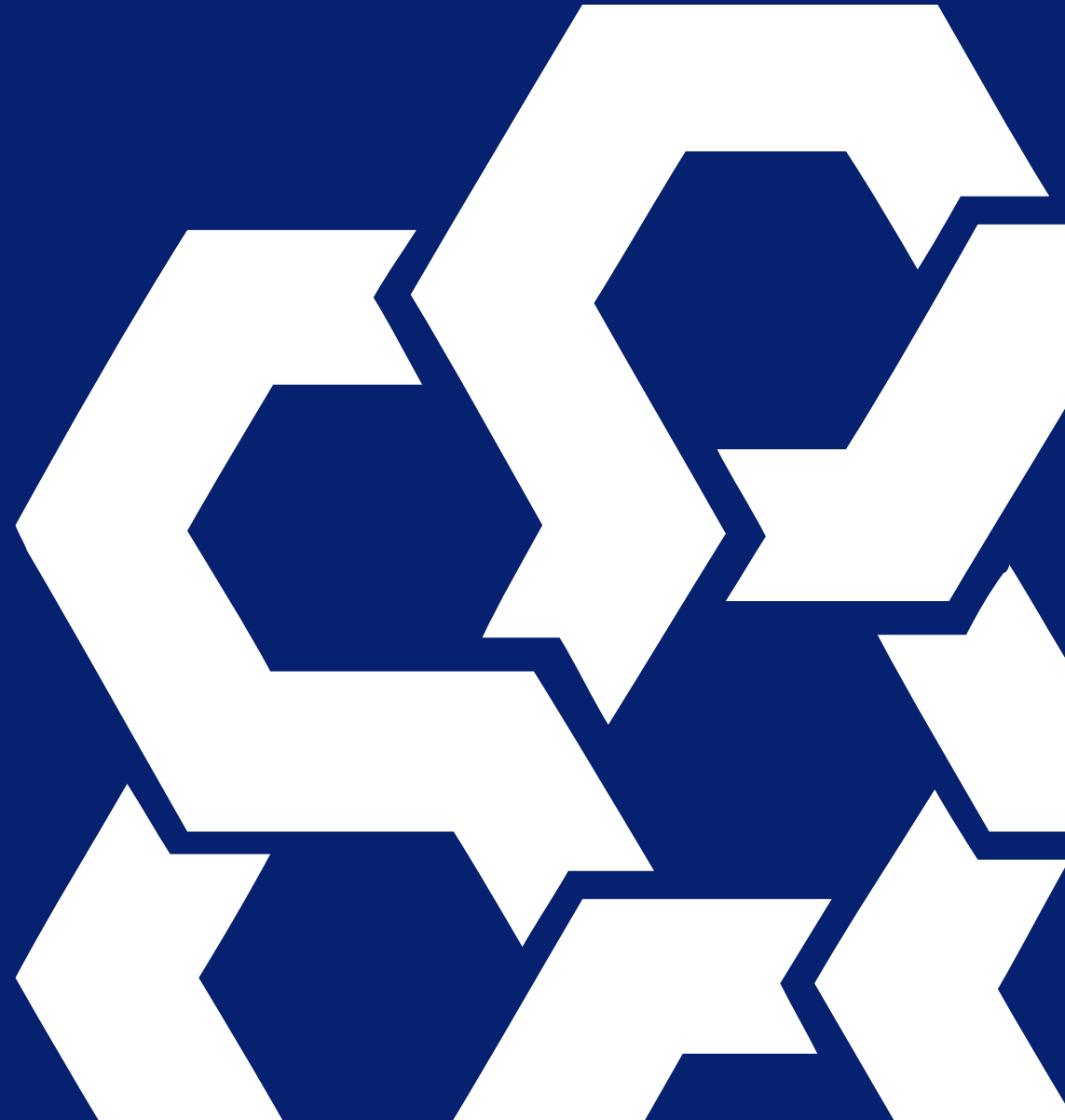
Transition and effective date



Transition and effective date

- The mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying the Accounting Standards have sufficient time to prepare for the new requirements.
- The Exposure Draft proposed to require entities to apply the forthcoming Accounting Standard after a transition period of 18-24 months from the date of publication with retrospective application.
- Factors considered by the IASB when making this proposal were:
 - ✓ the proposals affect presentation and disclosure and should be more straightforward to implement than changes affecting recognition and measurement; and
 - ✓ entities would not need to consider periods before the start of the earliest comparative period so restatement of comparatives should be relatively straightforward.

Overview of the Effects Analysis



What is an Effects Analysis?

- The IASB publishes a separate effects analysis report when a major new IFRS Accounting Standard is issued. The Due Process Handbook requires the IASB to assess:

the likely costs of implementing new requirements*

the likely ongoing associated costs and benefits*

(the costs and benefits are collectively referred to as effects)

The effects are assessed by the IASB...

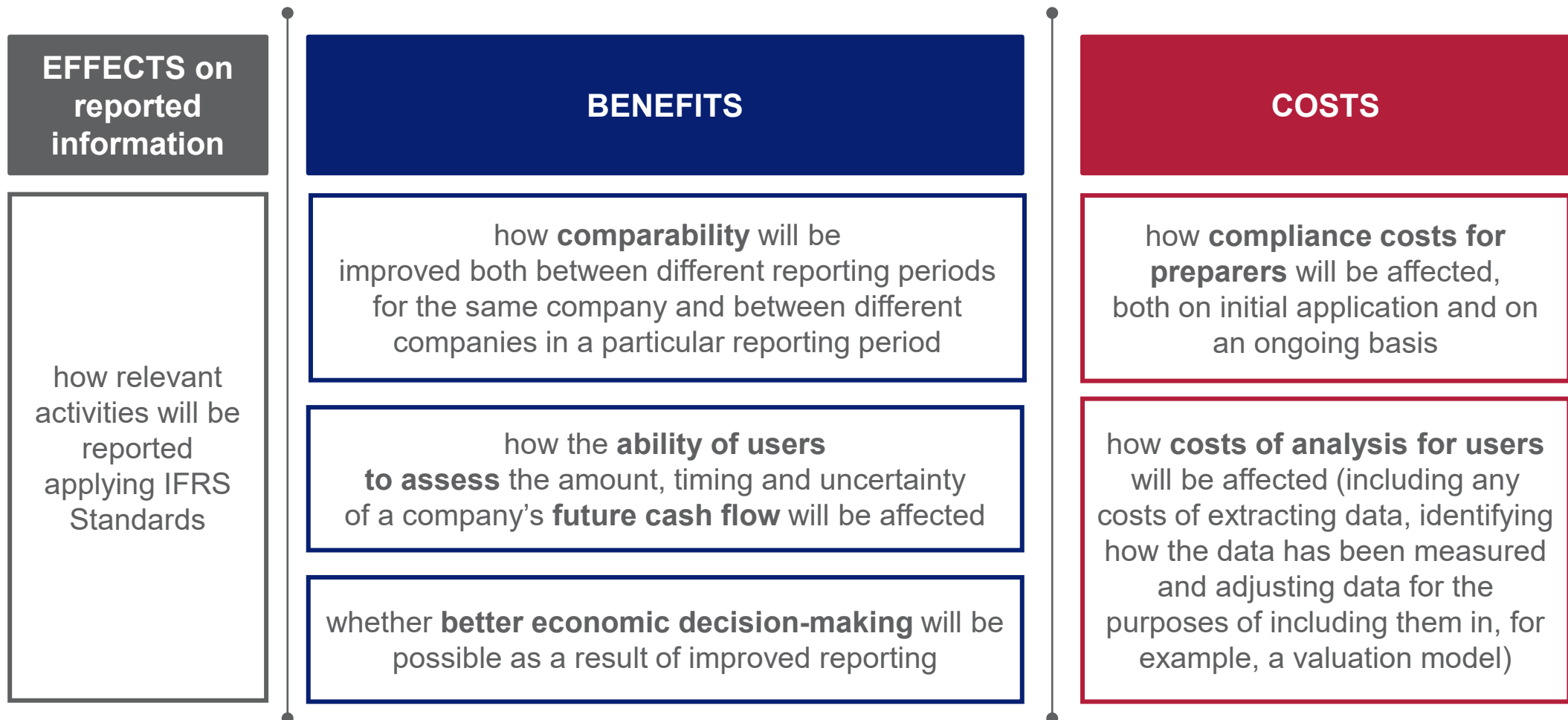
in the light of its objective of reporting transparency

in comparison to existing requirements

throughout the development of a new or amended Accounting Standard

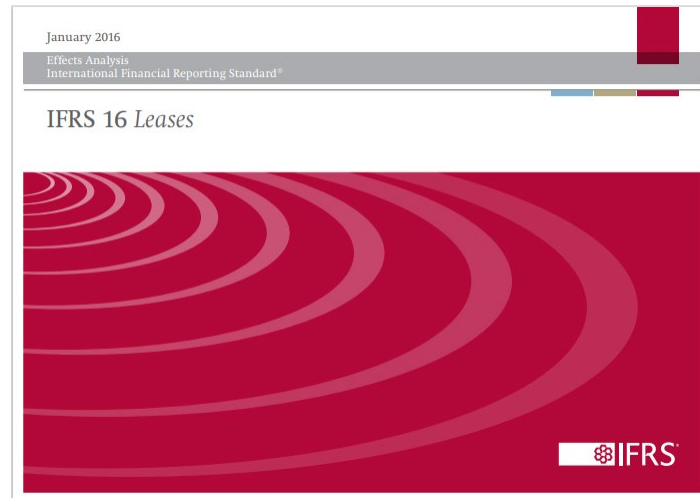
*Initial and ongoing costs and benefits are likely to affect different stakeholders in different ways

Examples of information included in an Effects Analysis

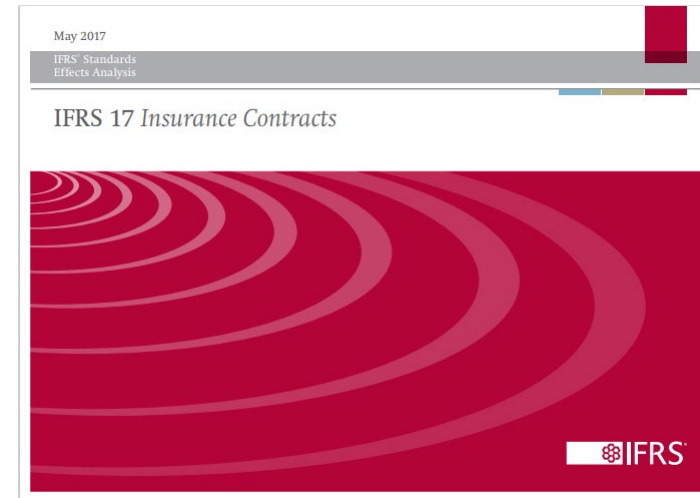


Effects Analysis on other IFRS Accounting Standards

IFRS 16 *Leases* ([LINK](#))

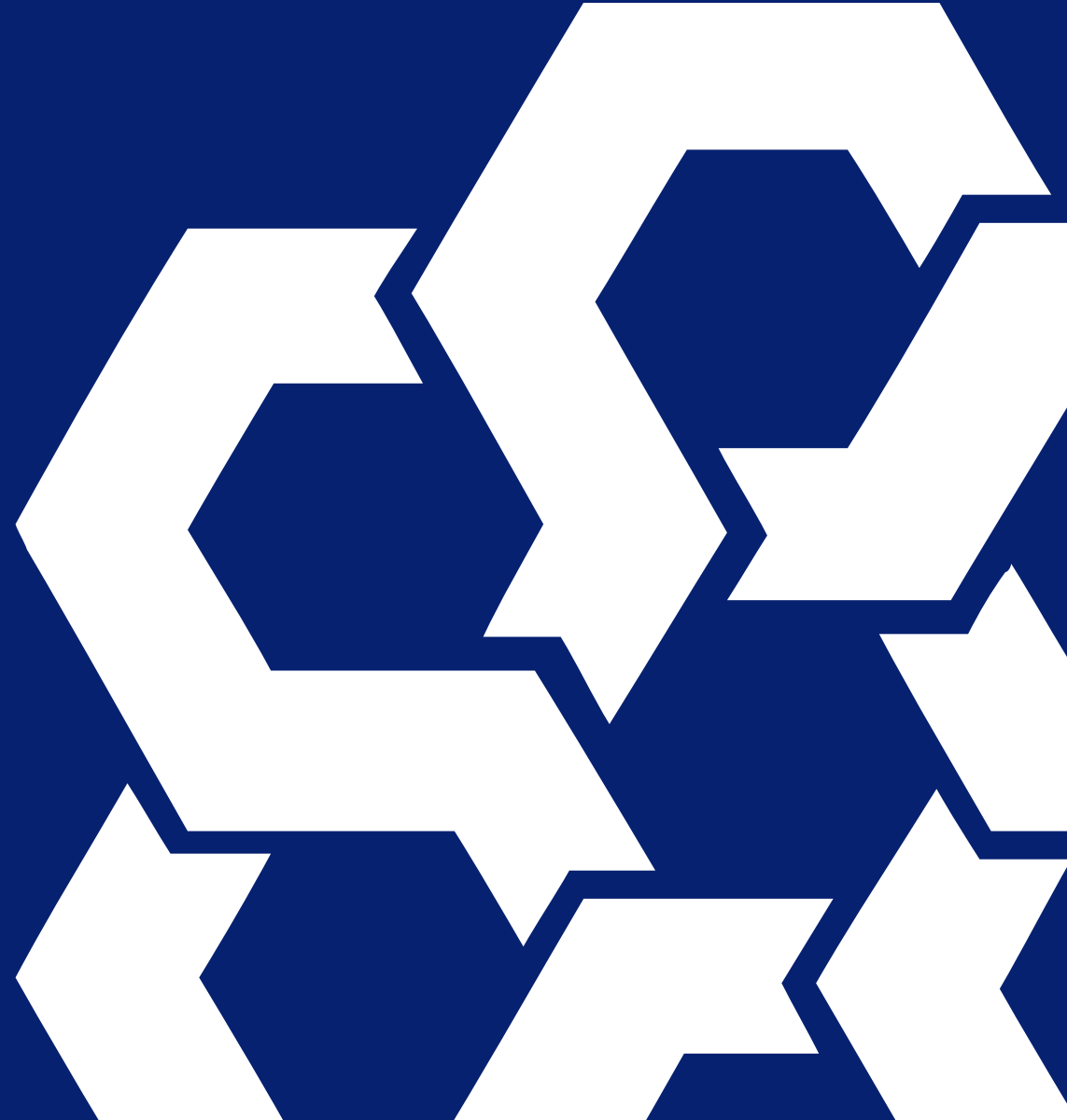


IFRS 17 *Insurance Contracts* ([LINK](#))



Effects Analysis is a key tool used by the IASB as part of implementation support activities to help stakeholders get ready for implementation.

Effects Analysis on the forthcoming IFRS Accounting Standard



Overall expected benefits and costs for preparers

Benefits

- Additional required subtotals that will provide greater comparability of financial performance across entities
- Transparency of reporting of management-defined performance measures to facilitate communication with users of financial statements
- Aggregation and disaggregation principles that will provide relevant information and facilitate communication with users of financial statements

Costs

- Most implementation costs would relate to:
 - ✓ the process changes and possible system changes required to implement the new requirements; and
 - ✓ training of staff and communicating changes to reported information to external parties
- Some of the proposed requirements may also result in ongoing costs


Benefits and costs to preparers of proposals related to subtotals

Requirements	Likely benefits	Likely costs
<ul style="list-style-type: none"> • Present defined operating profit or loss subtotal • Present profit or loss before financing and income taxes subtotal • Require separate information about income and expenses from investments • Present results from associates and joint ventures accounted for using the equity method in a single location 	<ul style="list-style-type: none"> • Greater comparability of financial performance across entities 	<p><u>Implementation costs</u></p> <ul style="list-style-type: none"> • Many would need to change internal processes and some may need to change systems to classify income and expenses into categories <p><u>Ongoing costs</u></p> <ul style="list-style-type: none"> • Costs arising from requirement for classifying income and expenses into categories following a business combination or other major business change <div style="background-color: #e1f5fe; padding: 10px;"> <p><input checked="" type="checkbox"/> <u>Cost mitigating factors</u></p> <ul style="list-style-type: none"> • Introduce the undue cost or effort relief for foreign exchange differences and gains or losses on derivatives not designated as hedging instruments. • Withdrawal of the proposal requiring entities to distinguish between integral and non-integral associates and joint ventures. </div>

Benefits and costs to preparers of proposals related to MPMs

Requirements	Likely benefits	Likely costs
<ul style="list-style-type: none"> • Disclosure of MPMs (including reconciliation with defined subtotal) in financial statements • Introduce rebuttable presumption for MPMs • Disclose of tax effect and NCI on individual reconciling items • Provide sufficient information to understand the reasons for, and the effect of, the change when changing the calculation of MPMs 	<ul style="list-style-type: none"> • Communications simplified by disclosing MPMs in the notes and presenting them in the statement of profit or loss if they fit the new structure. • Increase in transparency of these measures will help management to convey their view of the entity's performance. 	<p><u>Implementation costs</u></p> <ul style="list-style-type: none"> • Identify and provide disclosures in the notes for MPMs including disclosure of the tax effect and NCI for adjustments made in calculating MPMs. <p><u>Ongoing costs</u></p> <ul style="list-style-type: none"> • Providing disclosures relating to MPMs, for example the calculation of the tax effect on reconciling items <div style="background-color: #e1f5fe; padding: 10px; margin-top: 10px;"> <p><input checked="" type="checkbox"/> <u>Cost mitigating factors</u></p> <ul style="list-style-type: none"> • Establish a rebuttable presumption in the definition of MPMs (including application guidance) • Exclude oral communications, transcripts and social media posts from public communications • Introduce a simplified approach for calculating the tax effect. </div>

Benefits and costs to preparers of the proposals related to disaggregation

Requirements	Likely benefits	Likely costs
General disaggregation requirements	<ul style="list-style-type: none"> • Primary financial statements that provide an understandable overview • Notes that provide material information 	<p><u>Implementation costs</u></p> <ul style="list-style-type: none"> • Incremental costs to gather information that is not being gathered today <p><u>Ongoing costs</u></p> <ul style="list-style-type: none"> • Ongoing costs of assessing whether to disaggregate information applying the new requirements especially following a major business change
Aggregating items and using meaningful labels	<ul style="list-style-type: none"> • Meaningful labels used to describe items 	<p><input checked="" type="checkbox"/> <u>Cost mitigating factors</u></p> <ul style="list-style-type: none"> • Withdrawal of the proposal to disclose analysis of total operating expenses by nature in the notes when an entity reports operating expenses by function • Withdrawal of prohibition on a mixed presentation • Withdrawal of the proposal to require disclosure of unusual income and expenses
Disclose the amounts of depreciation, amortisation and employee benefits included in each function line item in the statement of profit or loss 	<ul style="list-style-type: none"> • Linkage between information provided in the primary financial statements and in the notes 	

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

Cost to preparers for education and communication



Cost for
education

Costs of educating internal stakeholders on classifying income and expenses in the operating, investing and financing categories.

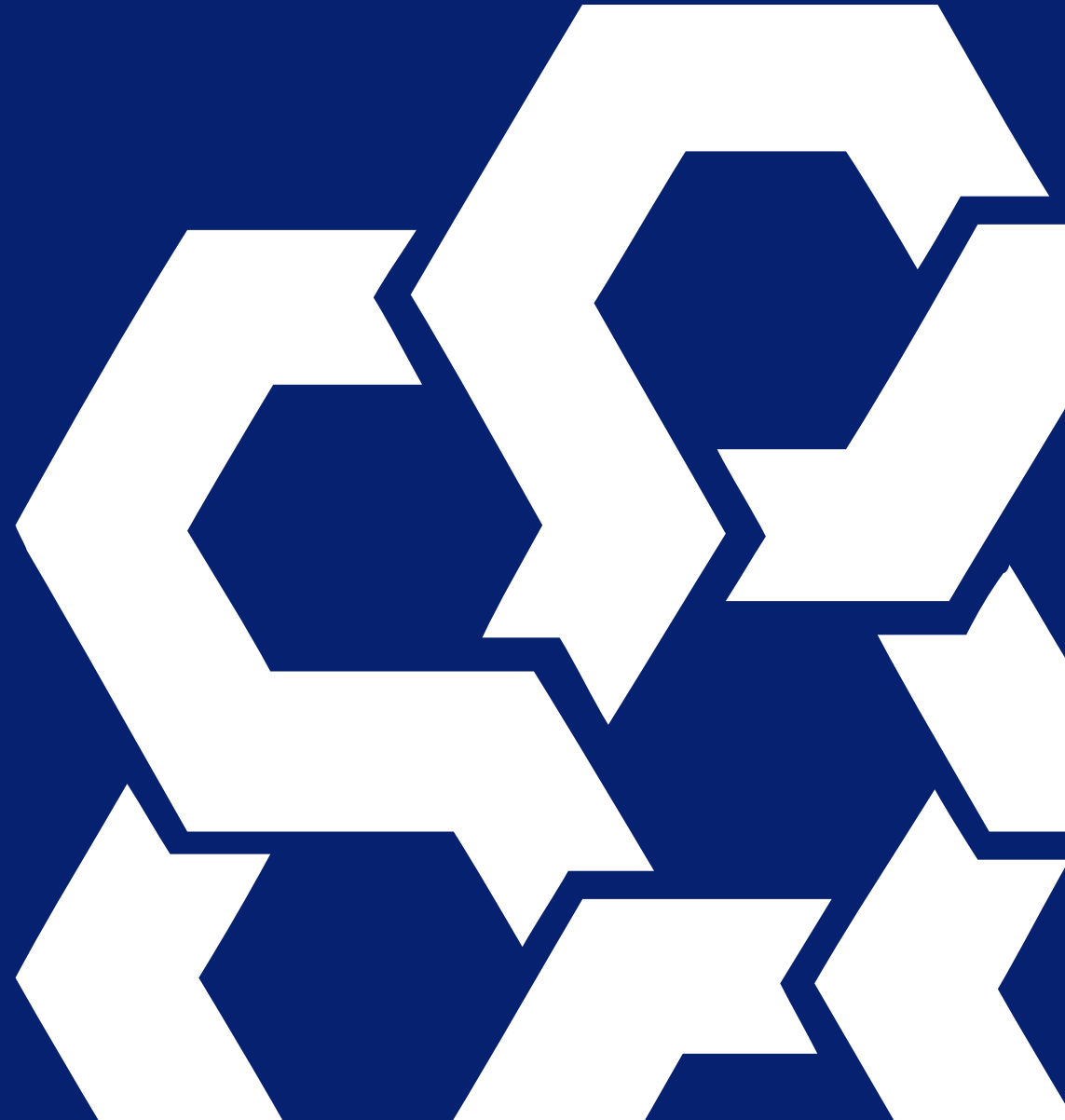


Cost for
communication

Costs of communicating changes to reported information to external parties (for example, investors and lenders).

These costs arise for all new requirements and are expected to be incurred when first implementing the proposals

Appendix – Key proposals



Statement of profit of loss

Revenue
 Other income
 Changes in inventories of finished goods and work in progress
 Raw materials used
 Employee benefits
 Depreciation
 Amortisation

Operating profit

Income and expenses from associates and joint ventures

Operating profit and income from associates and joint ventures (specified subtotal)

Income and expenses from investments

Income and expenses from cash and cash equivalents

Profit before financing and income tax

Income and expenses from liabilities that arise from transactions that involve only the raising of finance

Unwinding of discount on provisions

Profit before tax

Income tax

Profit for the year

Operating

Investing

Financing

Line items illustrate what is included in each category and do not necessarily denote specified line items. An entity would present line items that provide an understandable overview of the entity's income and expenses. We will discuss illustrative examples at the joint CMAC and GPF meeting in June 2023.

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

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

Examples (classified in the operating category when investing 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

★ *Feedback received in targeted outreach will be considered at 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 only the raising of finance is 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

For example, typical loan contract involves only the receipt of cash and the return of cash

Interest expense and the effects of changes in interest rates from other liabilities

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

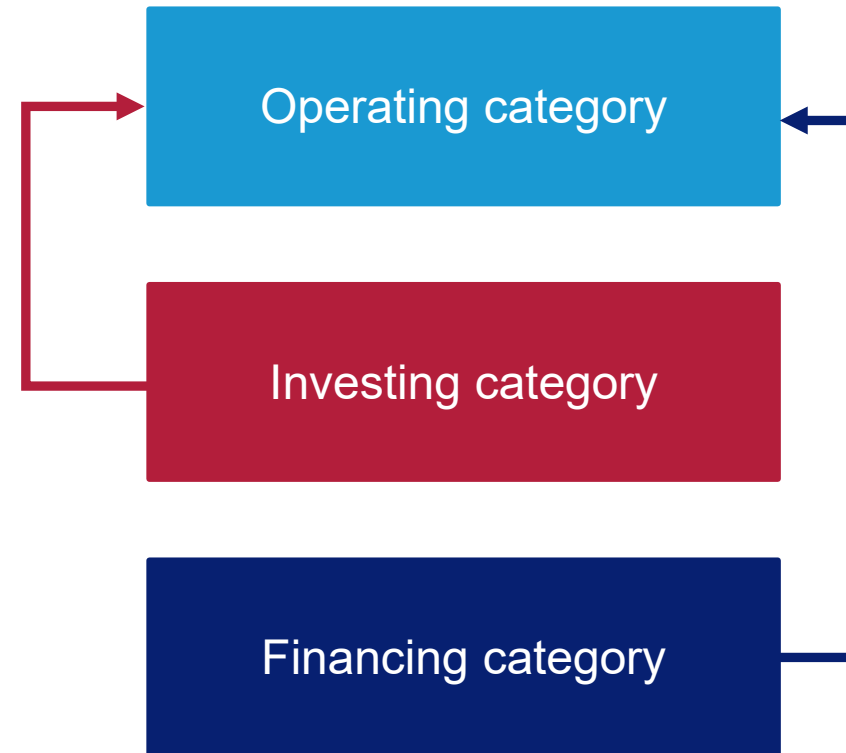
For example, a lease liability involves the receipt of a right-of-use asset and the return of cash

Entities with specified main business activities

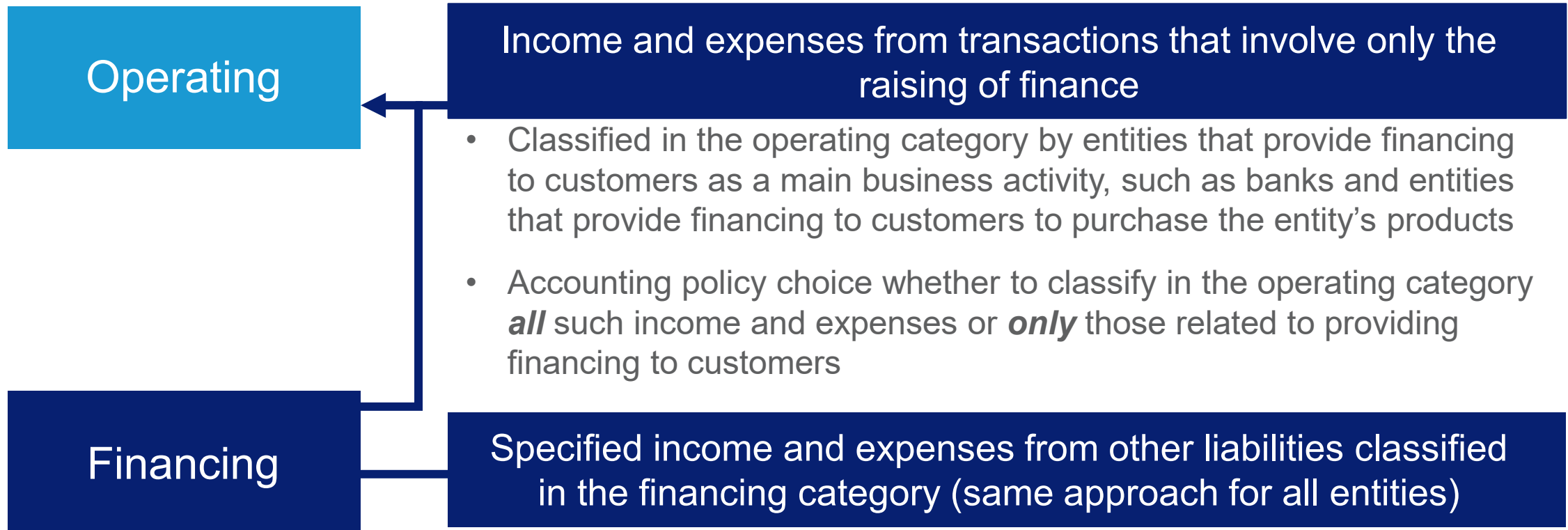
Operating profit is intended to include, but is not limited to, income and expenses from an entity's main business activities



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

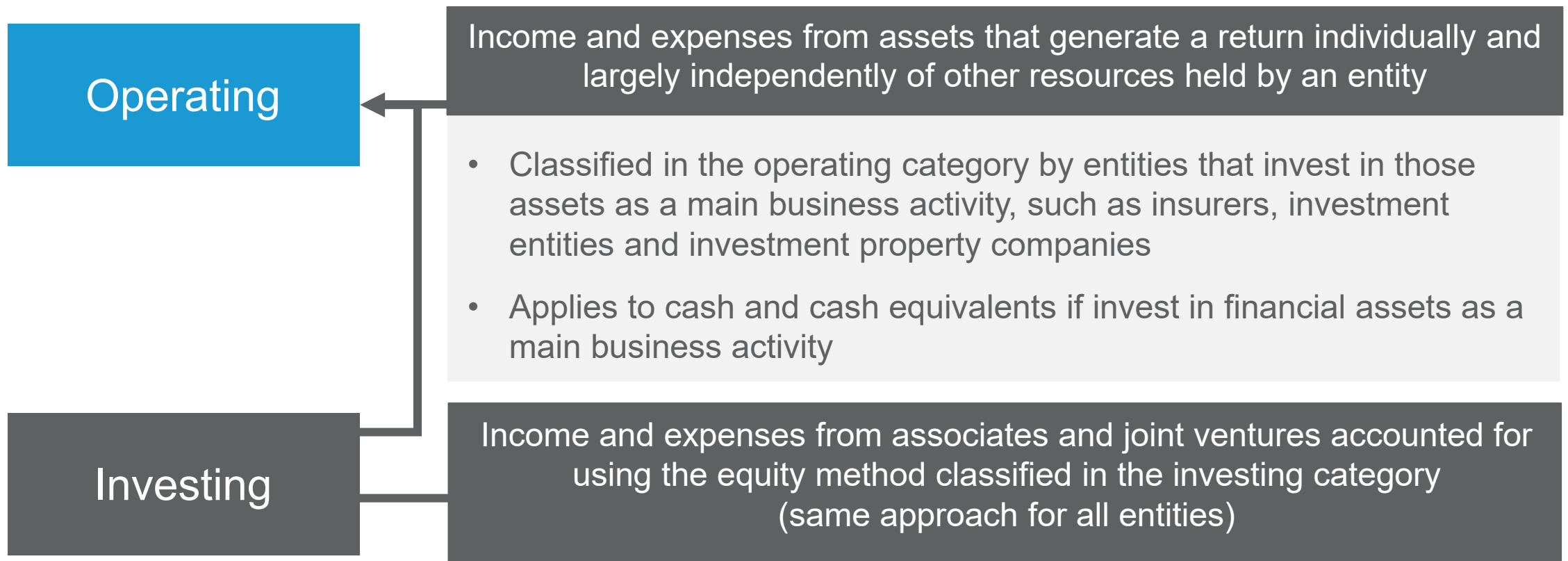


Entities that provide financing to customers as a main business activity



★ *The accounting policy choice to classify in the operating category either all income and expenses from cash and cash equivalents or the portion related to providing financing to customers will be discussed at a future IASB meeting*

Entities that invest as a main business activity



Statement of profit or loss — financing and investing as main business activities

Interest revenue calculated using the effective interest method

Interest expense

Net interest income

Fee and commission income

Fee and commission expense

Net fee and commission income

Net trading income

Net investment income, including cash and cash equivalents

Credit impairment losses

Employee benefits expense

Depreciation and amortisation expenses

Operating profit

Share of profit or loss of associates and joint ventures

Specified income and expense on other liabilities (incl. interest on lease liabilities)

Profit before tax

Income tax

Profit for the year

Operating

Non-main Investing and financing

Line items illustrate what is included in each category and do not necessarily denote specified line items. An entity would present line items that provide an understandable overview of the entity's income and expenses. We will discuss illustrative examples at the joint CMAC and GPF meeting in June 2023.

Statement of profit of loss—insurance as a main business activity

Insurance revenue

Insurance service expenses

Insurance service results

Interest revenue calculated using the effective interest rate method

Dividends and fair value changes on financial assets

Other impairment losses

Insurance finance expenses

Net financial result

Other expenses

Operating profit

Share of profit or loss of associates and joint ventures accounted for using equity method

Profit before financing and income tax

Specified income and expense on other liabilities (incl. interest on lease liabilities)

Profit before tax

Income tax

Profit for the year

Operating

Investing

Financing

Line items illustrate what is included in each category and do not necessarily denote specified line items. An entity would present line items that provide an understandable overview of the entity's income and expenses. We will discuss illustrative examples at the joint CMAC and GPF meeting in June 2023.

What are MPMs?

Performance measures

Non-Financial performance measures

For Example:

- Number of subscribers
- Customer satisfaction score
- Store surface

Financial performance measures

(Sub)totals of income and expenses

IFRS-Specified

For example:

- Operating profit
- Operating profit before depreciation amortisation and specified impairments

MPMs

For example:

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

Other measures that are not subtotals of income/expenses

For example:

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

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 ★

Definition of MPMs

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



The rebuttable presumption is intended to:

- reduce the subjectivity involved in identifying the subtotals that represent management's view; and
- avoid requiring entities to include as management performance measures, subtotals of income and expenses that do not represent management's view of an aspect of the entity's performance

What might 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	-
Operating profit (IFRS-specified)	41,270		



Simplified approach to calculating the tax effect ★

★ *To be discussed at a future IASB meeting*

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

- operating profit, profit before financing and income tax;
- gross profit and subtotals similar to gross profit;
- profit before tax, profit from continuing operations, profit or loss;
- total other comprehensive income, comprehensive income;
- operating profit before depreciation, amortisation and specified impairments
- operating profit and income and expense from investments accounted for using the equity method

What will be the disaggregation requirements?

General requirements and specified line items	Roles of the primary financial statements (PFS) and the notes	Principles for aggregation and disaggregation
	Specified line items	Aggregating items and using meaningful labels
Specific requirements	Disclosure of amounts included in each line item of profit or loss for depreciation, amortisation and employee benefits ★	Present operating expenses by nature and by function (mixed presentation permitted)

What would be the general requirements?

Roles of PFS and the notes



- Describe the roles of PFS and the notes and refer to understandability in the description of the role of PFS

Principles for aggregation and disaggregation



- Single dissimilar characteristic can be enough to disaggregate if resulting information is material
- 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

Specified line items



- New specified line items, including operating profit, profit before financing and income tax and goodwill in the statement of financial position

Aggregating items and using meaningful labels



- Use meaningful labels – only use the label ‘other’ when unable to find a more informative label
 - Explanation of what is included in an aggregation of varied immaterial items – e.g. amount consists of several unrelated immaterial items with an indication of the nature and amount of the largest item
-

Disclosure of operating expenses by nature in the notes

The Exposure Draft proposed that an entity that reports expenses by function in the statement of profit or loss discloses in the notes an analysis of 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 function line item in the statement of profit or loss; and
- add an exemption to the general requirement to disaggregate material information that would apply to information about the nature of operating expenses included in a function line item in the statement of profit or loss. Specific disclosure requirements in IFRS Accounting Standards relating to operating expenses would still apply.



 *Aspects of this proposal to be considered at a future IASB meeting*

Disclosure of operating expenses by nature in the notes









Statement of profit or loss	202X ¹		IASB's tentative decision (illustrating depreciation and employee benefits) ²	202X ¹
Revenue	3000		Depreciation	(500)
Cost of goods sold	(600)	↘	<i>Cost of goods sold</i>	(250)
Gross profit	2400		<i>Selling expenses</i>	(150)
Other income	500		<i>Research and development expenses</i>	(50)
Selling expenses	(400)	↘	<i>General and administrative expenses</i>	(50)
Research and development expenses	(300)	↘	Employee benefits	(400)
General and administrative expenses	(200)	↘	<i>Cost of goods sold</i>	(200)
Impairment losses on trade receivables	(100)	↘	<i>Selling expenses</i>	(100)
Operating profit (loss)	1900		<i>Research and development expenses</i>	(50)
			<i>General and administrative expenses</i>	(50)


¹ Comparative reporting period not depicted in example for simplification purposes

² Amortisation not illustrated. Additional specified nature expenses may be required in the final proposal

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		Investing category 

 Classified in a single category (either as operating, investing or financing activities) in the statement of cash flows by an entity with specified main business activities

 *Classification of dividends received from associates and joint ventures accounted for using the equity method to be discussed in a future IASB meeting*

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