STAFF PAPER

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IASB® Meeting

Project	**Primary Financial Statements**
Paper topic	Objective of and suitable locations for the management performance measure (MPM)

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Purpose of this paper

1. This Agenda Paper seeks the Board's views on the objective of introducing a management performance measure (MPM) subtotal into the statement(s) of financial performance and other suitable locations for the presentation and disclosure of that measure. This paper also identifies a number of other outstanding issues relating to the MPM that we will bring to a future Board meeting.

Summary of staff recommendations in this paper

2. The staff recommend that:

   (a) the objective of introducing a MPM into the statement(s) of financial performance (or elsewhere in the financial statements—discussed below) should be to encourage management to present its key performance measures inside the financial statements where they would be subject to greater transparency and audit;

   (b) we should explore how best to present or disclose information about non-recurring, unusual or infrequently occurring items separately at a future Board meeting;

   (c) the MPM should be presented as a subtotal in the statement(s) of financial performance unless it does not fit in our proposed structure for the statement(s); and

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(d) if the MPM is not presented as a subtotal in the statement(s) of financial performance, it should be provided in a separate reconciliation directly following the statement(s) of financial performance (ie directly after the other comprehensive income section).

Overview

3. This paper is structured as follows:

(a) why are we exploring encouraging or requiring presentation of a MPM subtotal (paragraphs 4-9)

(b) what discussions has the Board had about the MPM subtotal so far? (paragraphs 10-14)

(c) what are our outstanding issues (paragraph 15)?

(d) what is our objective for introducing a MPM subtotal (paragraphs 16-21)?

(e) what other presentations and locations should we consider for the MPM (paragraphs 22-44)?

(f) appendices:

(i) A—IAS 1 requirements for subtotals in the statement(s) of financial performance

(ii) B—High level feedback on Question 8 in the Discussion Paper *Principles of Disclosure*

(iii) C—How outstanding issues in paragraph 15 might be addressed depending on our objective for the MPM

(iv) D—Illustrations of different locations/presentations of the MPM

Why are we exploring encouraging or requiring presentation of a MPM subtotal?

Findings from our research

4. Many of the performance measures commonly presented as subtotals in the statement(s) of financial performance—for example, gross profit, operating profit and

earnings before interest and taxation (EBIT)—are not specified in IFRS Standards. Furthermore, entities often use modified forms of commonly used measures—for example, adjusted operating profit or adjusted profit. Performance measures that are not specified by IFRS Standards are sometimes referred to as non-IFRS or alternative performance measures.

5. The Board has received feedback that most users of financial statements support giving entities some flexibility in presenting performance measures, provided that those measures are not misleading. Users have told us that such performance measures can provide additional information about, and a better understanding of:

   (a) the financial performance and position of an entity. Some entities and users say a standardised set of measures specified in IFRS Standards cannot cover every entity's reporting needs.

   (b) the management's view of what is important to the entity, as well as insight into how the business is managed.

6. Some entities only provide their key performance measures outside the financial statements, which results in these performance measures being unaudited and in many cases difficult to reconcile to the financial statements. Some entities told us that they are reluctant to present these measures in the statement(s) of financial performance without clearer guidance in IFRS Standards because regulators might challenge them. Some users told us they would prefer these measures to be presented in the financial statements because they think that the IFRS requirements would improve the transparency of the measures and they would be audited. Nevertheless, even when entities present these measures as subtotals in the statement(s) of financial performance, some users told us it is often not clear how the measures have been determined and why they provide a good measure of performance.

7. Users have told us that they need information that enables them to assess the persistence or sustainability of an entity's financial performance. Users typically exclude non-persistent income/expenses from their analysis because non-persistent income/expenses are not good predictors of an entity's future performance. For this reason, many support introducing a subtotal into the statement(s) of financial performance that excludes non-recurring, unusual or infrequently occurring items (referred to collectively as 'infrequently occurring items' throughout the rest of this

paper). Many entities already communicate using performance measures that exclude infrequently occurring items. For example, entities commonly present an adjusted operating profit that excludes these items. However, some entities provide performance measures that exclude other items, ie those that are *not* infrequently occurring items—for example, some entities exclude share-based payment expenses or amortisation expenses of intangible assets from their performance measures—or appear to inappropriately label items as infrequently occurring.

Staff proposals at previous meetings[1]

8. To respond to the above findings, at previous meetings the staff has recommended requiring a MPM subtotal presenting management's view of performance in the statement(s) of financial performance if:

    (a) an entity reports that performance measure in the annual report; and

    (b) it meets the requirements for subtotals in paragraphs 85-85B of IAS 1 *Presentation of Financial Statements* (see appendix A).

    An entity is already permitted to present additional subtotals in the statement(s) of financial performance provided the subtotals meet the requirements of paragraphs 85-85B of IAS 1.

9. Furthermore the staff have recommended requiring additional presentation and disclosure requirements to provide transparency to the MPM subtotal, including the following:

    (a) adding management-defined constraints that would be required to be applied consistently over time (ie only permitting the exclusion of items that meet management's consistently applied policy for excluding items from the MPM subtotal);

    (b) requiring an entity to separately present infrequently occurring items from frequently occurring items for the items excluded from the MPM subtotal;

[1] See Agenda Paper 21B March 2017 and Agenda Paper 21C June 2017.

(c) disclosing a clear description of why the MPM subtotal provides management's view of performance, including an explanation of why items have been excluded from the MPM subtotal;

(d) stating whether the entity uses the same MPM outside of the financial statements; and

(e) disclosing a historical summary of items excluded from the MPM subtotal (for example, for a period of five years).

What discussions has the Board had about the MPM subtotal so far?

10. The Board has not yet taken a decision about whether to require or permit a MPM subtotal in the statement(s) of financial performance. However, the Board generally appears supportive of the staff proposals to:

    (a) introduce a management-defined measure providing management's view of performance in the statement(s) of financial performance;

    (b) require the MPM subtotal to meet the requirements for subtotals in existing paragraphs 85-85B of IAS 1 *Presentation of Financial Statements*; and

    (c) require additional disclosures to provide transparency around presentation of the MPM subtotal.

11. Some Board members would like to impose additional constraints on the MPM subtotal in addition to those in paragraphs 85-85B of IAS 1. However, other Board members expressed concern that any constraints could mean that the MPM subtotal is not management's view of performance and might encourage entities to continue to present different performance measures outside the financial statements. Additional types of constraints on the MPM subtotal suggested by Board members include:

    (a) prohibiting exclusion of frequently occurring items (ie only allowing entities to exclude infrequently occurring items);

    (b) prohibiting exclusion of items when it contradicts the Board's view of operating performance, for example prohibiting exclusion of frequently occurring items necessary to generate revenue such as share-based payment expenses;

(c) prohibiting exclusion of items solely on the basis they are considered outside of management control;

(d) introducing management-defined constraints (described in paragraph 9(a)).

12. Other concerns expressed by Board members include:

(a) we might be 'elevating' the MPM to an IFRS measure by requiring it in the statement(s) of financial performance, meaning this measure might no longer be subject to requirements for non-GAAP measures imposed by the regulators.

(b) if we require the MPM subtotal to be presented before the EBIT (or profit before financing and income tax) subtotal and before the 'income/expenses from investments' category—our proposed structure that was discussed at the November 2017 Board meeting—the MPM subtotal could not include income/expenses from investments, finance income/expenses or income taxes. This may prevent some preparers from presenting the MPM that they consider best reflects their performance. (It may be possible to avoid this problem by using a columnar presentation in the statement(s) of financial performance—the possibility of introducing additional columns is considered in paragraphs 27-29.)

13. Some Board members supported having the MPM in the statement(s) of financial performance but others suggested entities should instead provide the MPM in a separate reconciliation/statement. If the MPM was in a separate reconciliation it would not be restricted by our proposed structure for the statement(s) of financial performance as described in paragraph 12(b).

14. At the September 2017 Board meeting, the Board tentatively decided to prioritise introducing into the statement(s) of financial performance subtotals that facilitate comparisons between entities, such as EBIT, over introducing a MPM subtotal. The Board generally agreed it was more important to introduce greater structure and comparability into the statement(s) of financial performance, than maintain full flexibility for management to present its view of performance, and that these two needs were, at least to some extent, in conflict with each other. Nevertheless, the Board generally agreed it was important to discuss whether and how a MPM could be

included in the financial statements after making decisions on introducing comparable subtotals.

What are our outstanding issues?

15. Based on the above summary of the Board discussions, the staff have identified the following as the main outstanding issues to address before the Board can make a decision on introducing a MPM subtotal:

(a) what constraints should there be on the MPM subtotal (see paragraph 11)?

(b) should the MPM subtotal be required or allowed?

(c) should we consider other ways of presenting or disclosing the MPM (covered in paragraphs 22-44), for example if it does not fit in our new structure for the statement(s) of financial performance or if it does not meet the requirements in paragraphs 85-85B of IAS 1 for subtotals—for example if the entity's view of performance removes the effects of changes in foreign exchange rates or the effects of business combinations.

(d) how would the MPM relate to the total of the measures of segment profit or loss reviewed by the chief operating decision maker and disclosed in the operating segment note (see paragraphs 23-27 of IFRS 8 *Operating Segments*)?

(e) what should we do if an entity presents two or more key performance measures, for example adjusted operating profit and adjusted profit?

(f) what additional presentation and disclosure requirements should we develop for the MPM?

(g) how would our requirements for the MPM interact with existing regulatory requirements for non-IFRS measures communicated outside the financial statements, for example *ESMA Guidelines on Alternative Performance Measures*?

The staff also intend to bring back proposals for the presentation of management-defined adjusted earnings per share (EPS) in financial statements to a future meeting.

What is our objective for introducing a MPM subtotal?

16. The staff think before discussing the outstanding issues above it would be helpful to clarify our objective for allowing or requiring a MPM subtotal to be presented in the statement(s) of financial performance. The staff have heard the following two main views of the objective for incorporating a MPM subtotal:

    (a) to encourage preparers to present their key performance measures inside the financial statements where they would be subject to greater transparency and audit. This would provide users with more transparent information about management's view of performance and greater assurance about the adjustments and amounts used in determining that measure; and

    (b) to provide users with information to assess the persistence or sustainability of an entity's financial performance.

17. The staff think that once we choose one of these objectives as our primary objective, it will be easier to discuss the outstanding issues in paragraph 15. To help Board members decide which objective is appropriate, the staff have provided an initial analysis of the issues against both of the objectives in Appendix C.

18. When the staff first proposed introducing a MPM subtotal into the statement(s) of financial performance back in March, we noted that our proposals were in response to concerns that some entities only communicate their key performance measures outside the financial statements resulting in these performance measures being unaudited and difficult to reconcile to the financial statements. Users have told us that these measures can provide useful additional information, including insight into how the business is managed. However, they would prefer these measures to be presented within the financial statements to improve the transparency of the measures and so that they are audited (see paragraphs 5-6). Consequently, we think that our primary objective should be to encourage preparers to present their key performance measures inside the financial statements (paragraph 16(a)).

19. Users of financial statements find information about infrequently occurring items useful to assess the persistence or sustainability of an entity's financial performance. We have found that management often excludes infrequently occurring items from its key performance measures. Therefore, the staff think that addressing the objective in paragraph 16(a) is also likely to help to address the objective in paragraph 16(b),

provided management separately presents information about infrequently occurring items from other adjustments.

20. However, we should consider that management might not always exclude all infrequently occurring items from its key performance measures. Consequently, in addition to introducing a MPM, we could consider developing additional requirements about infrequently occurring items to provide users with information to assess the persistence or sustainability of an entity's financial performance (paragraph 16(a)). For example, we could require entities to:

    (a) exclude all infrequently occurring items from the MPM and present them separately; or

    (b) otherwise, provide an explanation as to why any such items have not been excluded from the MPM and disclose information about infrequently occurring items separately.

    We would also want to consider whether we should develop guidance to ensure that the term 'infrequently occurring' is used appropriately and consistently across entities.

21. In the Discussion Paper *Disclosure Initiative—Principles of Disclosure* we asked for feedback on whether the Board should develop definitions of and requirements for the presentation of infrequently occurring items in the statement(s) of financial performance (Question 8 in the Discussion Paper). Appendix B contains a high-level summary of the feedback we received. We are currently analysing the feedback in more detail. We will bring this feedback to a future Board meeting with staff proposals that further develop our initial ideas in paragraph 20.

Question 1
Does the Board agree that the objective of introducing a MPM into the statement(s) of financial performance (or elsewhere in the financial statements—discussed below) should be to encourage management to present its key performance measures inside the financial statements where they would be subject to greater transparency and audit? Does the Board also agree that we should explore how best to present or disclose information about infrequently occurring items separately at a future Board meeting?

Location of the MPM

22. At previous meetings the staff has proposed that the MPM is presented as a subtotal in the statement(s) of financial performance (Approach 1). However, some Board members suggested other possible presentations/locations. Based on our past discussions the staff have identified the following three alternatives for providing the MPM:

    (a) using a columnar approach in the statement(s) of financial performance (Approach 2);

    (b) in a separate reconciliation accompanying the statement(s) of financial performance (Approach 3); and/or

    (c) in the notes (Approach 4).

23. Examples of how these approaches might be applied in practice are provided in Appendix D. The staff have considered the advantages and disadvantages of each of the locations below.

Approach 1: MPM subtotal in the statement(s) of financial performance (single column)

24. Description: The MPM subtotal would be presented in a single column statement(s) of financial performance (or only in the 'totals'/final column). Assuming we require the MPM subtotal to be presented before the EBIT subtotal and before the

'income/expenses from investments' category, this would mean the MPM subtotal could not include income/expenses from investments, finance income/expenses or income taxes.

25. The staff think the following are advantages of presenting the MPM as a subtotal in the statement(s) of financial performance (single column):

(a) information in the statement(s) of financial performance is more prominent than that in the notes. This means that management would be able to report its key performance measures more prominently and the measures would be more likely to be considered by users.

(b) many users and preparers have told us they would like these measures in the statement(s) of financial performance.

(c) the fact that the MPM subtotal could not include income/expenses from investments, finance income/expenses or income taxes (restrictions on the MPM) would mean the MPM subtotal will often essentially be a management-defined 'operating profit' figure. We have had feedback in this project that some investors would like entities to provide an 'operating profit' figure, even if this is a management-defined figure.

26. The staff think the following are disadvantages of presenting the MPM as a subtotal in the statement(s) of financial performance (single column):

(a) the restrictions described in paragraph 25(c) might induce management to communicate different performance measures outside the statement(s) of financial performance.

(b) items excluded from the MPM subtotal would be presented as separate line items below the MPM subtotal, meaning that they would not be included in the by function/by nature analysis. For example if restructuring expenses are selling general or administrative expenses (SG&A) but an entity wishes to exclude these amounts from the MPM subtotal they would be excluded from the SG&A amounts in the statement(s) of financial performance.

(c) subtotals in the statement(s) of financial performance are required to meet the requirements in paragraphs 85-85B of IAS 1, which add restrictions on the MPM. This is another reason why management might continue to communicate different performance measures outside the statement(s) of financial performance. For example, the MPM subtotal could not exclude the effects of changes in foreign exchange rates, even if this is excluded from management's view of performance.

(d) stakeholders may have concerns about 'elevating' management-defined measures by presenting them as prominently as Board-defined measures, like EBIT, in the statement(s) of financial performance.

Approach 2: Columnar approach for presenting MPM in the statement(s) of financial performance

27. Description: The MPM would be presented as the total of the amounts presented in a separate column of the statement(s) of financial performance.

28. The staff think the following are advantages of presenting the MPM in a separate column in the statement(s) of financial performance:

(a) the MPM would still be presented prominently in the statement(s) of financial performance and so has some of the same advantages as Approach 1 (paragraph 25(a) and (b)).

(b) However, there would be less restrictions on the MPM subtotal than Approach 1. This means management would be less likely to communicate different performance measures outside the statement(s) of financial performance because:

(i) the MPM subtotal could include income/expenses from investments, finance income/expenses and income taxes;

(ii) items excluded from the MPM could still be included in the by function/by nature analysis; and

(iii) there may be some scope for allowing subtotals/totals that do not meet the requirement in paragraphs 85-85B of IAS 1 provided they are presented in a separate column from the totals column, thus giving more flexibility (although this might risk being misleading).

29. The staff think the following are disadvantages of presenting the MPM in a separate column in the statement(s) of financial performance:

(a) whilst this type of presentation is already used in some jurisdictions, it does not appear to be used in many other jurisdictions. Consequently it would be a significant change in some jurisdictions and may meet resistance Furthermore, the regulators in some jurisdictions prohibit columnar presentation, specifically because they require a fixed format for the statement and/or prohibit non-GAAP measures in the statement(s) of financial performance (although presumably these restrictions would be removed if IFRS Standards specifically permitted a columnar approach).

(b) columns would add complexity to the statement(s) of financial performance and may detract from the ability of the statement(s) to provide a clear overview of an entity's income/expenses which allows for quick comparisons between entities (discussed as part of the role of the primary financial statements in Section 3 of the Discussion Paper *Disclosure Initiative—Principles of Disclosure*). The presentation of comparative information for the preceding period for each column would further add to the complexity.

(c) stakeholders may still have concerns about 'elevating' management-defined measures by presenting them as prominently as Board-defined measures in the statement(s) of financial performance.

(d) as illustrated in Appendix D, presenting all reconciling items in a single column with a generic label such as 'other income/expense' or 'adjustments' would not provide users with any information about the adjustments (eg whether they are restructuring expenses, impairment losses etc.). Such information may need to be clarified by the entity in a footnote or in the notes.

Approach 3: A separate reconciliation for the MPM accompanying the statement(s) of financial performance

30. <u>Description:</u> The MPM would not be presented as a subtotal in the statement(s) of financial performance but would instead be presented in a separate reconciliation accompanying the statement(s) of financial performance, for example directly following the statement(s) of financial performance (ie directly after other comprehensive income). We could require the reconciliation to reconcile our EBIT (or

profit before financing and income tax) subtotal to the MPM, or alternatively reconcile profit or loss to the MPM if we think this is more appropriate (for example if the MPM includes some financing or income tax items).

31. The staff think the advantages of presenting the MPM in a separate reconciliation accompanying the statement(s) of financial performance are as for Approach 2, albeit that the MPM would be shown slightly less prominently than if it was in the statement(s) of financial performance (which some may see as an advantage). There is also the additional advantage that it would not add complexity to the statement(s) of financial performance.

32. The staff think the following are disadvantages of presenting the MPM in a separate reconciliation accompanying the statement(s) of financial performance:

    (a) entities may try and present the reconciliation more prominently than the statement(s) of financial performance or, alternatively may try to make the reconciliation less visible, for example by disclosing it in a footnote or providing it on a different page.

    (b) including a separate reconciliation as part of the primary financial statements may be seen as a significant change and may meet resistance.

    (c) users would not be able to determine in which by function/by nature line item in the statement(s) of financial performance the reconciling items in the separate reconciliation are included.

Approach 4: MPM disclosed in the notes

33. <u>Description:</u> The MPM would not be presented as a subtotal in the statement(s) of financial performance but would instead be disclosed in the notes, for example in a reconciliation similar to approach 3.

34. The staff think the following are advantages of disclosing the MPM in the notes:

    (a) entities could present their view of performance without any significant restrictions. Currently entities are permitted to disclose additional information in the financial statements. The Principles of Disclosure project is currently looking at ways to make sure that this additional information is appropriately labelled and presented fairly. In this project, the Board may also consider prohibiting some 'non-IFRS information' from being included in the financial statements[2].

(b) this may avoid concerns about 'elevating' management-defined measures because they would not be presented as prominently as Board-defined measures in the statement(s) of financial performance.

35. The staff think the following are disadvantages of presenting the MPM in the notes:

(a) the MPM would be less prominent and could be more difficult to find.

(b) preparers would feel they could not present their view of performance in a suitably prominent manner.

(c) requiring the MPM to be disclosed in the notes would be a very limited change and would be unlikely to result in significant improvements from existing requirements.

Implications of electronic reporting

36. The move towards greater use of digital reports (for example PDF and HTML) and structured electronic data (where information is extracted from a digital report and tagged) will affect the advantages and disadvantages of the approaches discussed above. Some examples are highlighted in paragraphs 37 and 38.

37. Use of digital reports: The location and physical presentation of the MPM would still be important. In particular, we have received feedback that when digital reports are used the primary financial statements are the starting point for users' analysis. This indicates that approaches 1-3 would still result in the MPM being presented more prominently than it would be if it was disclosed in the notes (approach 4). However, digital reports make it easier for users to locate information in the notes (see paragraph 35(a)), for example through use of navigational and search functions.

38. Use of structured electronic data: Some may argue that there would be little difference between the four approaches above under structured electronic reporting. This is because information is identified through tags and use of those tags permits users to find and use the information easily, irrespective of where it is physically presented in

[2] *Disclosure Initiative—Principles of Disclosure* Discussion Paper, paragraph.4.39.

the financial statements. Nevertheless the physical presentation could affect how data is tagged, for example:

(a) regulators may require more detailed tagging of information in the primary financial statements than the notes, at least in the early days of transition to electronic reporting. For example, to facilitate the implementation of structured electronic reporting, the European Securities and Markets Authority (ESMA) will initially require detailed tagging only for the primary financial statements. In these circumstances the MPM would still be more prominent under approaches 1-3 than it would be if it was disclosed in the notes (approach 4).

(b) if information is presented in a columnar format (approach 2) rather than in a single column (approach 1), there would be more data points that could be tagged. This would allow an investor to easily analyse all data (line items and subtotals) from different perspectives (ie from management's view as well as based on our proposed structure for the statement(s) of financial performance).

Staff recommendation

39. The staff think we should require the MPM to be presented as a subtotal in the statement(s) of financial performance (single/'totals' column) unless the MPM subtotal does not fit in our proposed structure for the statement(s) of financial performance.

40. Examples where the MPM might not fit in our proposed structure include:

(a) management's view of performance includes income/expenses from investments, finance income/expenses or income taxes;

(b) management's view of performance does not meet the criteria in paragraphs 85-85B of IAS 1; or

(c) when it would disrupt the by function/by nature analysis of expenses in the statement(s) of financial performance, for example if an entity presented an analysis of expenses by function, but the MPM excluded expenses based on their nature.

41. The staff think if the MPM is not presented as a subtotal in the statement(s) of financial performance it should be presented in a separate reconciliation accompanying the statement(s) of financial performance. The staff think we should develop a standardised presentation/location for the reconciliation as part of the primary financial statements. We think this should be directly following the statement(s) of financial performance (ie directly after the other comprehensive income section).

42. This proposal recognises the importance of presenting the MPM prominently in the statement(s) of financial performance where possible, provided that this does not undermine the information presented in that statement, which would make it less useful. The staff think that it is important to retain some constraints on what can be presented in the statement(s) of financial performance to retain the credibility of the statement(s). In particular, we do not think we should permit a MPM that does not meet the requirements in paragraphs 85-85B of IAS 1 to be presented in the statement(s) of financial performance. An example would be if management's view of performance removes the effects of changes in foreign exchange rates. Nevertheless, in order to cater for a wide range of MPMs, we think we should allow such a measure to be reported in a reconciliation accompanying the statement(s) of financial performance. Including it in a separate reconciliation outside the statement(s) of financial performance would maintain the credibility of the statement. Plus, the staff think catering for a wide range of MPMs would prevent our proposals having limited effect by entities continuing to communicate these different performance measures outside the financial statements.

43. The staff have proposed requiring a separate reconciliation rather than a columnar presentation when the MPM does not fit into our proposed structure for the statement(s) of financial performance for the following reasons:

    (a) columns add complexity to the statement(s) of financial performance, which could detract from the simple summary of financial performance currently provided by that statement;

    (b) as explained in paragraph 42, we think it is important to cater for a wide range of MPMs. However, some MPM may not meet the requirements in paragraphs 85-85B of IAS 1, and some might even appear to contradict the information presented in the statement(s) of financial performance. We think if we want to allow flexibility for management to provide its view of performance then it is better for the MPM to be presented in a separate reconciliation, rather than in the statement(s) of financial performance.

The staff have not proposed that we should ban the practice of using columns. However, we do not think they should be used for the MPM.

44. Under the staff proposal there will be a clear reconciliation between the EBIT subtotal and the MPM either in the statement(s) of financial performance or accompanying the statement(s) of financial performance.

Question 2

Does the Board agree that we should require the MPM to be presented as a subtotal in the statement(s) of financial performance unless the MPM subtotal does not fit in our proposed structure for the statement(s) of financial performance?

Does the Board agree that if the MPM is not presented as a subtotal in the statement(s) of financial performance, it should be provided in a separate reconciliation directly following the statement(s) of financial performance (ie directly after the other comprehensive income section)?

Appendix A—Paragraphs 85-85B of IAS 1: Requirements on additional subtotals in the statement(s) of financial performance

85 An entity shall present additional line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity's financial performance.

85A When an entity presents subtotals in accordance with paragraph 85, those subtotals shall:

(a) be comprised of line items made up of amounts recognised and measured in accordance with IFRS;

(b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable;

(c) be consistent from period to period, in accordance with paragraph 45; and

(d) not be displayed with more prominence than the subtotals and totals required in IFRS for the statement(s) presenting profit or loss and other comprehensive income.

85B An entity shall present the line items in the statement(s) presenting profit or loss and other comprehensive income that reconcile any subtotals presented in accordance with paragraph 85 with the subtotals or totals required in IFRS for such statement(s).

Appendix B—High level feedback on Question 8 in the Discussion Paper *Principles of Disclosure*

B1. This appendix contains a high-level summary of the responses received to question 8 in the *Disclosure Initiative—Principles of Disclosure* Discussion Paper (see below). This summary should be read as indicative only. A more detailed analysis of the comments will be presented at a future Board meeting.

Question 8 as extracted from the Discussion Paper

The Board's preliminary views are that it should:

- clarify that the following subtotals in the statement(s) of financial performance comply with IFRS Standards if such subtotals are presented in accordance with paragraphs 85–85B of IAS 1:
    - the presentation of an EBITDA subtotal if an entity uses the nature of expense method; and
    - the presentation of an EBIT subtotal under both a nature of expense method and a function of expense method.
- develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items in the statement(s) of financial performance, as described in paragraphs 5.26–5.28.

(a) Do you agree with the Board's preliminary views? Why or why not? If you do not agree, what alternative action do you suggest, and why?

(b) Should the Board prohibit the use of other terms to describe unusual and infrequently occurring items, for example, those discussed in paragraph 5.27?

(c) Are there any other issues or requirements that the Board should consider in addition to those stated in paragraph 5.28 when developing requirements for the presentation of unusual or infrequently occurring items in the statement(s) of financial performance?

The feedback on Question 8 will be considered as part of the Board's Primary Financial Statements project.

General comments

B2. There was a general view that the discussion of performance measures should be developed within the context of the Primary Financial Statements project, rather than the Principles of Disclosure project.

Presentation of EBIT/EBITDA

B3. Respondents expressed mixed views on the Board's preliminary views on the presentation of EBIT and EBITDA.

B4. Some of the respondents who disagreed with the Board's preliminary views said that:

(a) the existing guidance in paragraphs 85–85B of IAS 1 is sufficient and does not need clarification; and

(b) the presentation of EBITDA should be permitted in the statement(s) of financial performance or in the notes if an entity uses the function of expense method.

B5. Respondents also expressed mixed views on whether the Board should define and require EBIT and/or EBITDA. Some respondents mentioned that the Board should not require EBIT and/or EBITDA for all entities, because such subtotals are not appropriate for financial institutions.

Presentation of unusual or infrequently occurring items in the statement(s) of financial performance

B6. Many respondents:

(a) agreed that the separate presentation or disclosure of unusual or infrequently occurring items is helpful to users in making forecasts about future cash flows.

(b) expressed the view that developing definitions of, and requirements for, the presentation of unusual or infrequently occurring items in the statement(s) of financial performance would be a difficult undertaking for the Board.

(c) agreed that the Board should develop some guidance on this topic, but emphasised that such guidance should consist of principles for the fair presentation of unusual or infrequently occurring items, rather than rule-based definitions of 'infrequently occurring' or 'unusual'.

B7. Some respondents:

(a) questioned how the presentation of 'unusual' or 'infrequently occurring' items would be different from the presentation of 'extraordinary' items, which is prohibited by paragraph 87 of IAS 1.

(b) said that the Board should also consider other types of adjustments that entities make to performance measures.

(c) said the Board should also consider the presentation of unusual or infrequently occurring items in the other primary financial statements and segment reporting.

Prohibiting the use of other terms to describe unusual and infrequently occurring items

B8. Many respondents disagreed with prohibiting the use of other terms to describe unusual and infrequently occurring items, saying that:

(a) such a prohibition would not be in line with the principle-based nature of the Standards;

(b) such a prohibition would be difficult to implement from a translations perspective;

(c) entities should have flexibility in the terms they use to describe such items; and

(d) entities would bypass such a prohibition by using other terms, which is what happened when the Board prohibited the presentation of 'extraordinary' items.

Appendix C—How the outstanding issues might be addressed depending on the objective of the MPM

Outstanding issues (from paragraph 15)	**Treatment if the objective of the MPM is to show management's view of performance**	**Treatment if the objective of the MPM is show the persistence or sustainability of an entity's financial performance**
What constraints should there be on the MPM?	We may want to limit the constraints if we truly want management's view of performance.	We would need to decide how much guidance to provide over what can be classified as infrequently occurring.
MPM required or permitted?	This may depend on whether an entity reports such measures outside the financial statements.	We may want to require for all entities.
Other ways of presenting or disclosing MPM?	All four approaches described in this paper are relevant (see paragraph 22 onwards).	All four approaches described in this paper are relevant (see paragraph 22 onwards).
How MPM relates to the total of segment profit or loss (as reviewed by the chief operating decision maker) in the operating segment note?	We may want to consider whether/when MPM can differ from the total of segment profit or loss and/or what explanation should be required if they differ.	There may be no need to consider this because it is likely that the MPM could be different from the information provided in the segment note.
If there are two or more key performance measures would we want more than one MPM?	Issue would need to be addressed.	An entity is unlikely to have more than one measure of infrequently occurring items and so there would be only one MPM in the statement(s) of financial performance.
What disclosure requirements should we require, for example a five year history of adjustments to the MPM?	Would need to be addressed.	Would need to be addressed.
Interaction with regulatory requirements?	Would need to be addressed.	Unlikely to need to be addressed if we develop suitable guidance on what can be classified as infrequently occurring.

Appendix D—Illustrations of different locations/presentations of the MPM

D1. This appendix shows examples of how the following approaches might be applied in practice:

(a) Approach 1: MPM provided as a subtotal in a single column.

(b) Approach 2: MPM provided as the total of a separate column in the statement(s) of financial performance.

(c) Approach 3: MPM provided in a separate reconciliation.

(The MPM in the illustrations for approaches 2 and 3 differs from the MPM in the illustration for Approach 1. The MPM in the illustrations for approaches 2 and 3 would not fit into a single column statement(s) of financial performance as a subtotal because it includes net interest on net defined benefit asset.)

D2. We have not illustrated Approach 4 ‘MPM in the notes’. This is because such disclosure would not necessarily need to be standardised. However, we think one way to disclose the MPM in the notes would be to present a separate reconciliation, like the one in Approach 3.

D3. Note that these illustrations do not show the required comparative information for the preceding period.

Approach 1—MPM provided as a subtotal in a single column statement(s) of financial performance

Statement(s) of financial performance (by function)

Revenue	10,000
Cost of goods sold	(4,000)
Gross profit	6,000
SG&A	(2,000)
Management performance measure	4,000
Restructuring expenses	(1,000)
Profit before investments, financing and income tax	3,000
Share of profit of non-integral associate	250
Other income from investments[3]	50
Profit before financing and income tax (or EBIT)	3,300
Interest income from cash and cash equivalents calculated using effective interest method	80
Other income from cash and cash equivalents and financing activities	20
Expenses from financing activities	(1,000)
Other finance income	50
Other finance expense	(350)
Net finance income (expense)	(1,200)
Profit before tax	2,100
Income tax expense	(600)
Profit or loss	**1,500**

[3] For example, this line item might include interest on loans receivable and fair value gains and losses on a passive investment in shares of another company. This information might be disaggregated in the notes or presented as separate line items.

Approach 2—MPM provided as a total in a separate column[4]

Statement(s) of financial performance (by function)

	MPM (adjusted operating profit)	Other income/expense	Total
Revenue	10,000		10,000
Cost of goods sold	(4,000)		(4,000)
Gross profit	6,000		6,000
SG&A	(2,000)	(1,000)	(3,000)
Profit before investing, financing and income tax			3,000
Share of profit of non-integral associate		250	250
Other income from investments		50	50
Profit before financing and income tax (or EBIT)			3,300
Interest income from cash and cash equivalents calculated using effective interest method		80	80
Other income from cash and cash equivalents and financing activities		20	20
Expenses from financing activities		(1,000)	(1,000)
Other finance income	50		50
Other finance expense		(350)	(350)
Net finance income (expense)			(1,200)
Management performance measure	4,050		
Profit before tax			2,100
Income tax expense		(600)	(600)
Profit or loss			**1,500**

[4] This illustration shows one possible way that columns might be used in practice. There are likely to be other columnar presentations that could be used under Approach 2.

Approach 3—MPM provided as separate reconciliation to our EBIT subtotal

Statement(s) of financial performance (by function)

Revenue	10,000
Cost of goods sold	(4,000)
Gross profit	6,000
SG&A	(3,000)
Profit before investing, financing and income tax	3,000
Share of profit of non-integral associate	250
Other investing income	50
Profit before financing and income tax (or EBIT)	3,300
Interest income from cash and cash equivalents calculated using effective interest method	80
Other income from cash and cash equivalents and financing activities	20
Expenses from financing activities	(1,000)
Other finance income	50
Other finance expense	(450)
Net finance income (expense)	(1,200)
Profit before tax	2,100
Income tax expense	(600)
Profit or loss	**1,500**

Management performance measure reconciliation

Profit before financing and tax	**3,300**
Share of profit of non-integral associate	(250)
Other income from investments	(50)
Restructuring expenses	1,000
Net interest income on net defined benefit asset (part of other finance income)	50
Management performance measure	4,050