STAFF PAPER

April 2018

IASB® Meeting

Project	**Primary Financial Statements**
Paper topic	Clarifying requirements for management performance measures (MPMs)

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Purpose of this paper

1. This Agenda Paper seeks the Board's views on clarifying the requirements for management performance measures (MPMs).

2. This paper does not address financial entities. We would like the Board to focus on determining a suitable approach for a non-financial entity first. We think the approach in this paper could be considered for financial entities. However, some of the requirements, for example the subtotals listed in paragraph 14, may need to be adapted.

Summary of staff recommendations in this paper

3. The staff recommend the following (these recommendations would update tentative decisions made in December 2017 and January 2018):

   (a) all entities shall identify a measure (or measures) of profit or comprehensive income that is (are) relevant to an understanding of the entity's financial performance and, in the view of management, best communicate(s) to users the financial performance of the entity. If an identified measure:

      (i) is not a subtotal or total required by paragraph 81A of IAS 1 *Presentation of Financial Statements*, the measure is a management performance measure (MPM) and the requirements in paragraph 3(b) apply; or

(ii) is a subtotal or total required by paragraph 81A of IAS 1, the requirements in paragraph 3(b) do not apply but the entity should identify this measure and explain why it best communicates management's view of the entity's financial performance.

Paragraph 81A of IAS 1 would include the existing subtotals in that paragraph and the proposed new subtotals developed as part of this project (as explained in paragraph 14).

(b) the following requirements shall apply to a measure identified in paragraph 3(a)(i):

(i) a reconciliation is disclosed in the notes between that measure and the most directly comparable subtotal or total required by paragraph 81A of IAS 1;

(ii) the measure is labelled in a clear and understandable way so it is not misleading;

(iii) there are no specific constraints on how management determines the measure apart from the requirement that it must be relevant to an understanding of the entity's financial performance; and

(iv) the following disclosures are required as well as those in Appendix B:

1. an explanation of how the measure provides relevant information about an entity's financial performance; and
2. a statement that the measure provides management's view of the entity's financial performance and is not necessarily comparable with other entities.

Note, the recommendations above describe disclosure requirements for the MPM in the notes only. Consequently, they do not affect the presentation of additional subtotals in the statement(s) of financial performance in accordance with paragraphs 85-85A of IAS 1.

Overview

4. This paper is structured as follows:

   (a) background (paragraphs 5-10)

   (b) staff analysis of concerns raised by Board members (paragraphs 11-35)

   (c) staff recommendations and questions for the Board (paragraph 36)

   (d) should we reconsider the location of the MPM reconciliation (paragraphs 37-39)?

   (e) appendices

      (i) A—our proposed constraints on MPM subtotals

      (ii) B—our proposed disclosure requirements for all MPMs

      (iii) C—suggested requirements for fair presentation of performance measures in the Discussion Paper *Disclosure Initiative—Principles of Disclosure* (POD Discussion Paper)

      (iv) D—illustrative disclosure of MPM and adjusted EPS reconciliation

Background

What is our main reason for developing requirements for presentation and disclosure of MPMs in the financial statements?

5. In previous meetings the Board has focussed on introducing greater comparability into the statement(s) of financial performance to help financial statement users ('users') perform their analysis. For example, we have developed proposals to introduce new subtotals, such as profit before financing and tax (or EBIT), and to clarify requirements for disaggregation of information by function and by nature. However, preparers have told us it is important also to provide them flexibility to tell their story by presenting their view of financial performance within the financial statements.

6. During our initial research in the project the staff identified two main reasons why we might want to develop requirements to incorporate MPMs in the financial statements:

   (a) to provide information that users have told us is useful about:

(i) how management views and drives the entity's financial performance, including insight into how the business is managed; and

(ii) the persistence or sustainability of an entity's financial performance. This is because often management identifies and makes adjustments for non-recurring/infrequently occurring items when providing its performance measures.

(b) to provide users with more transparent information and greater assurance about the adjustments and amounts used in determining MPMs. Requiring management to present its performance measures inside the financial statements may make these measures more transparent because IFRS requirements, such as disclosure requirements, will apply to these measures. The financial statements are also often audited, providing greater assurance over the measures. Some preparers told us that they want to present their view of financial performance in their financial statements but without guidance in IFRS Standards they are reluctant to do so, because regulators and auditors may question and challenge them.

7. In response to these reasons, in December 2016 the Board tentatively decided to explore as part of this project incorporating some commonly-used performance measures into IFRS Standards, including separate presentation of infrequently occurring items. The Board tentatively decided to focus primarily on performance measures based on the statement(s) of financial performance. That is because during outreach we have received feedback that:

(a) performance reporting issues are the most controversial and critical in financial reporting; and

(b) most alternative performance measures used by entities in their communications are based on the statement(s) of financial performance.

Discussion and tentative decisions taken so far

8. At its December 2017 and January 2018 meetings the Board tentatively decided:

(a) all entities should specify their key performance measure (or measures) in the financial statements, which should include, as a minimum, key performance measures communicated in the annual report. If any of these measures are not specified or defined in IFRS Standards, an entity should identify such measures as MPMs.

(b) to require presentation of an MPM as a subtotal in the statement(s) of financial performance if it fits in the Board's proposed structure for the statement(s) and satisfies the requirements in IAS 1 for subtotals (these requirements are described in Appendix A).

(c) to require that, if the MPM does not meet the requirements to be presented as a subtotal, then a reconciliation should be disclosed in the notes between the MPM and the most appropriate measure specified or defined in IFRS Standards ('MPM reconciliation').

(d) that there should be no specific constraints on MPMs provided in an MPM reconciliation in the notes but that specific disclosures would be required (these disclosures are described in Appendix B).

These tentative decisions were taken subject to the staff clarifying which measures are 'key performance measures' and also when a measure is 'specified or defined in IFRS Standards'. The staff also noted that we would bring additional proposals about the presentation and/or disclosure of non-recurring/infrequently occurring items to a future Board meeting after we have discussed the related feedback on the POD Discussion Paper.

9. At the February 2018 Board meeting the staff proposed the following clarifications:

(a) these proposals should focus only on a subset of key performance measures—management's key financial measures of profit or comprehensive income. Based on our research, management commonly reports key performance measures such as operating profit, adjusted operating profit and adjusted profit. These are financial measures of profit and are essentially subtotals of income and expenses that management would likely include in the statement(s) of financial performance if IFRS Standards had no constraints on subtotals in that statement(s).

(b) refer to 'subtotals or totals required in IFRS Standards for the statement(s) of financial performance' (rather than use 'specified or defined in IFRS Standards' as proposed in paragraph 8(a)).

Concerns raised by Board members

10. At the February 2018 Board meeting, the Board asked the staff to develop a simplified approach for MPMs for a future meeting. In particular, Board members raised the following main concerns about the MPM proposals in paragraphs 8-9:

(a) additional subtotals presented by entities in accordance with paragraphs 85-85A of IAS 1 are <u>required</u> by IFRS Standards. Therefore, rather than refer to 'subtotals or totals required in IFRS Standards for the statement(s) of financial performance' for the purposes of the MPM requirements (as proposed in paragraph 9(b)) it would be better to specify exact subtotals or totals (for example, by making reference to a list of specific subtotals that are required in IFRS Standards).

(b) we might appear to be 'elevating' MPMs (ie requiring more MPMs to be presented as subtotals compared to today) if we introduce specific requirements for MPMs to be presented as subtotals or if we signify that MPMs automatically provide relevant information. This is because under existing requirements many entities are not presenting MPM subtotals in the statement(s) of financial performance. In relation to this some Board members wondered whether paragraphs 85-85A of IAS 1 are well understood, are being applied well in practice or might benefit from clarification/improvement.

(c) our focus should be on requiring the reconciliation described in paragraph 8(c), rather than including more MPM subtotals in the statement(s) of financial performance. In line with this we should require the MPM reconciliation to be disclosed in the notes for all MPMs, including those that are presented as subtotals.

(d) how to address a scenario when an entity identifies more than one MPM.

(e) our requirements appear to mandate that all entities identify a MPM, even if they don't currently communicate any to users. An entity might communicate only subtotals or totals specifically listed in IFRS Standards, for example profit.

(f) we should clarify that entities should use their own labels for their MPM(s), for example 'recurring profit', rather than using the label 'MPM'.

Staff analysis of concerns raised by Board members

11. The staff have addressed the concerns raised by Board members below:

    (a) which subtotals or totals we are referring to (see paragraphs 13-15)

    (b) concern about ‘elevating’ MPMs (see paragraphs 16-23)

    (c) primary focus should be the MPM reconciliation (see paragraphs 24-26)

    (d) requirements for multiple MPMs (see paragraphs 27-30)

    (e) requirement if an entity does not have any MPMs (see paragraph 31)

    (f) labelling MPMs (see paragraphs 32-33)

12. The staff have also considered whether to:

    (a) specify that our requirements apply to external measures (paragraph 34)

    (b) incorporate additional disclosure requirements from the POD Discussion Paper (paragraph 35)

Which subtotals or totals we are referring to (paragraph 10(a))

13. In December 2017 the Board tentatively decided that entities must provide a reconciliation between any MPM and the most appropriate measure specified or defined in IFRS Standards. In February 2018 the staff proposed to use ‘subtotals or totals required in IFRS Standards’ in order to clarify what we mean by ‘specified or defined in IFRS Standards’. However, some Board members expressed concern that ‘subtotals or totals required in IFRS Standards’ would include additional subtotals presented in accordance with paragraphs 85-85A of IAS 1, rather than only subtotals specifically required by IFRS Standards.

14. To be clear exactly which subtotals we are referring to, the staff therefore recommend providing a list of specific subtotals and totals that could be used in the MPM reconciliation. The same list would also be used for identifying whether a measure is an MPM (ie if a measure is one of these subtotals it would not be an MPM). The staff think we should refer to the following list:

    (a) *business profit;*

    (b) *profit before financing, investing and tax;*

(c) *profit before financing and tax;*

(d) profit or loss;

(e) total other comprehensive income; and

(f) comprehensive income for the period.

This list contains the existing subtotals in paragraph 81A of IAS 1 plus the proposed new subtotals developed as part of this project. The proposed new subtotals are shown in italics. The exact labelling of these new subtotals has not yet been decided by the Board. The staff think we should also replace use of 'the most appropriate subtotal' (for example in paragraph 8(c)) with 'the most directly comparable subtotal'.

15. The staff think the subtotals in paragraph 81A and our proposed new subtotals are clearly measures that we would want to include in the list in paragraph 14. However, we may also want to consider if we should expand this list to include other commonly used subtotals that do not include management adjustments, such as gross profit, profit before taxation and profit from continuing operations.

Concern about 'elevating' MPMs (paragraph 10(b))

16. In December 2017 the Board tentatively decided to require an MPM to be presented as a subtotal in the statement(s) of financial performance if and only if it fits in the Board's proposed structure for the statement(s) and satisfies the requirements in IAS 1 for subtotals (paragraph 8(b)). However, some Board members have expressed concern that our proposals may appear to 'elevate' MPMs (ie require more MPMs to be presented as subtotals compared to current practice).

17. Because an MPM subtotal would need to fit in the Board's proposed structure, the staff think our package of proposals is arguably more restrictive than the current requirements for presenting MPMs as additional subtotals (under paragraphs 85-85A of IAS 1). This is because our proposed descriptions of 'finance income/expenses' and 'income/expenses from investments' and our proposed clarification of the requirements for disaggregation of expenses by function or by nature have the potential to prevent some MPMs that currently meet the requirements to be presented as subtotals from being presented as subtotals. Hence rather than 'elevating' MPMs,

our package of proposals may actually restrict the numbers of MPMs that would be presented as subtotals in the statement(s) of financial performance.

18. Nevertheless, our proposals might appear to require more MPM subtotals than the current requirements for the following reasons:

(a) there are different views in practice on how the requirements in paragraphs 85-85A of IAS 1 should be applied and in some jurisdictions they are applied quite restrictively.

(b) one reason for developing requirements for MPMs is because we have heard that performance measures communicated by management can provide useful information to users of financial statements (see paragraph 6). Vocalising this reason could imply that all performance measures communicated by management are automatically relevant to an understanding of an entity's financial performance. If our proposals are interpreted this way, then it could be difficult for auditors and regulators to challenge the inclusion of an MPM as a subtotal in the statement(s) of financial performance even when they think that MPM is not relevant to an understanding of an entity's financial performance.

19. To avoid the perception that we are 'elevating' MPMs, the staff think we should not specify additional requirements for the presentation of an MPM as a subtotal. Consequently, we suggest that we do not include the tentative decision in paragraph 16 in our proposals. Besides, we think this tentative decision is superfluous for the following reasons:

(a) IAS 1 requires any subtotal that satisfies the requirements in paragraphs 85-85A of IAS 1 to be presented in the statement(s) of financial performance; and

(b) unless a columnar approach is used for presenting an MPM subtotal, such a subtotal would need to fit into the Board's proposed structure for the statement(s) of financial performance. In December 2017 the Board considered but did not favour allowing or requiring MPMs to be presented in a columnar format in the statement(s) of financial performance (see paragraphs 22-44 of December 2017 Agenda Paper 21A).

20. However, the staff think we should address the following points to impose further discipline on the way MPMs are included in the financial statements:

(a) whether an MPM should be included in the financial statements only if it is relevant to an understanding of an entity's financial performance (see paragraphs 21-22); and

(b) whether the requirements in paragraphs 85-85A of IAS 1 should be clarified to improve their application (see paragraph 23).

Clarify that the MPM must provide relevant information about financial performance

21. In January 2018 the Board tentatively decided that that there should be no specific constraints on the MPMs that are provided in the notes (see paragraph 8(d)). Nevertheless, the staff think we should clarify that an MPM is identified only if it provides relevant information about an entity’s financial performance. The staff does not think that MPM disclosures would be useful for users unless they meet this hurdle. We also think that entities should be required to provide an explanation of how management thinks the MPM provides relevant information about an entity’s financial performance.

22. Paragraph 85 of IAS 1 requires entities to present additional subtotals in the statement(s) of financial performance ‘when such presentation is relevant to an understanding of the entity's financial performance’. If we require that to be identified as an MPM a measure must provide relevant information about an entity’s financial performance, then the staff think any MPM that:

(a) fits the proposed structure of the statement(s) of financial performance; and

(b) is comprised of line items made up of amounts recognised and measured in accordance with IFRS (see paragraph 85A(a) of IAS 1)

would be presented as a subtotal.

Clarification of the requirements in paragraphs 85-85A of IAS 1

23. Our discussions at the last Board meeting highlighted concerns that paragraphs 85-85A of IAS 1 may not be well understood or consistently applied in practice. The staff think that we should explore ways to clarify these paragraphs separately from the

MPM proposals. For example, we think the requirement in paragraph 85A(a) that the subtotal must 'be comprised of line items made up of amounts recognised and measured in accordance with IFRS' is unclear. That requirement does not sit well in paragraph 85A because it appears to focus on how the subtotal is determined, rather than how a subtotal required by paragraph 85 is fairly presented. Consequently we think it may be useful to move paragraph 85A(a) into paragraph 85 of IAS 1. In addition, the staff plan to explore whether additional guidance is needed on what is meant by 'be comprised of line items made up of amounts recognised and measured in accordance with IFRS'.

Primary focus should be the MPM reconciliation (paragraph 10(c))

24. In January 2018 the Board tentatively decided if an MPM does not meet the requirements to be presented as a subtotal, then the MPM should instead be disclosed in a separate MPM reconciliation in the notes (see paragraph 8(c)).

25. Some Board members have suggested that our focus should be on requiring the MPM reconciliation, rather than including more MPM subtotals in the statement(s) of financial performance. The staff agree with this suggestion and think that this can be achieved by amending our proposals as follows:

    (a) not specifying additional requirements for the presentation of MPM subtotals (see paragraph 19); and

    (b) requiring the MPM reconciliation in the notes for all MPMs (including for an MPM presented as a subtotal in the statement(s) of financial performance).

26. For some MPMs this would result in duplication of the reconciliation in the statement(s) of financial performance and in the notes. However, the staff think this duplication would be outweighed by the following benefits:

    (a) users, including some CMAC members at the March 2018 meeting, have told us that it is important that the MPM reconciliation can be found easily and accessed in a consistent way across entities. For example, requiring the reconciliation to always be disclosed in the notes with the other MPM disclosures.

(b) the MPM reconciliation and the other disclosures (see Appendix B) about the MPM would be in one place.

(c) an entity could provide greater disaggregation and explanation in the MPM reconciliation in the notes than if the MPM is only reconciled in the statement(s) of financial performance.

(d) if we require entities to disclose an adjusted EPS that is calculated on a consistent basis with the MPM (see Agenda Paper 21B), then the MPM and the numerator for the adjusted EPS could be provided together in a single reconciliation in the notes (for example see the illustration in Appendix D).

We note that the use of electronic reporting and also the search functions in digital reports may make it easier for users to locate information in the notes than has previously been the case. This may reduce the benefits in (a)-(c). However, even in the context of an electronic report, including all the information about MPMs in a single note may make it easier for users to access it if text block tagging is used to tag the information.

Requirements for multiple MPMs (paragraph 10(d))

27. The staff think detailed disclosures about numerous measures of profit or comprehensive income (and multiple adjusted EPS) would not be helpful to users without any indication of management's view about which of the measures are the most important. It could also be onerous for entities to provide such disclosure. The staff's intention when using the term '<u>key</u> financial measures of profit or comprehensive income' (paragraph 9(a)) was to limit MPMs to those measures that provide management's main view of financial performance.

28. The staff therefore suggest our proposals should be further focused by requiring entities to identify the measure or measures of profit or comprehensive income that, in the view of management, best communicate(s) to users the financial performance of the entity. We think disclosures about this measure (or measures) would provide the most useful information for users.

29. This proposal would also:

(a) avoid the need to refer to the undefined term 'key financial measure' which might be confused with the term 'key performance indicator';

(b) simplify our proposals by removing the requirement for entities to identify all key performance measures that are in the annual report (paragraph 8(a)); and

(c) clarify that auditors do not need to audit whether the measure 'best communicate(s) to users the financial performance of the entity'. This is because the measure is required to be identified as being 'in the view of management'.

30. An entity might communicate multiple measures of profit or comprehensive income, for example adjusted operating profit and adjusted profit, in addition to the IFRS subtotals in paragraph 14. We think all entities will have, and already be communicating, at least one measure that, in the view of management, best communicates to users the financial performance of the entity. Some entities may identify a single measure. However, the staff think that we should permit entities to identify more than one measure (which might mean more than one MPM is identified).

Requirement if an entity does not have any MPMs (paragraph 10(e))

31. We have received feedback that our proposal to require management to identify its key financial measures of profit or comprehensive income (see paragraph 8(a) and 9(a)) can be read to imply that we expect every entity will have an MPM. This is not what the staff intended. In some cases we think the measure (or measures) of profit or comprehensive income that, in the view of management, best communicate(s) to users the financial performance of the entity will be a subtotal(s)/ total(s) specified by paragraph 81A of IAS 1 (see paragraph 14). If so, the staff suggest entities would only have to identify this measure and explain why it best communicates management's view of the entity's financial performance. The staff do not think entities need to provide a reconciliation (since the measure itself would be the most directly comparable subtotal or total required by paragraph 81A of IAS 1), nor the other disclosures in Appendix B.

Labelling of MPMs (paragraph 10(f))

32. The staff think entities should use their own labels for MPMs provided they are not misleading. This would provide a more useful description than the label 'MPM' and provide a distinction between MPMs if an entity identifies more than one MPM. It would also help to clarify that the MPM is not a standardised measure across entities.

33. Nevertheless, this requirement could still result in a scenario where two entities use the same label for a measure, for example 'adjusted operating profit', but determine the measure differently (such a problem also exists under our current requirements). Consequently, the staff think it would be helpful to introduce a disclosure requirement for entities to state that the MPM, however labelled, provides management's view of financial performance and is not necessarily comparable with other entities. In the IFRS Taxonomy, there are other ways we could clarify that the specified measure is an MPM and therefore is not necessarily comparable. One example could be to include 'MPM' in the element label and explain within the definition of the element that the measure is a Management Performance Measure that reflects management's view of financial performance.

Specify that our requirements apply to external measures

34. The staff also think we should clarify that MPMs are those measures communicated to users, rather than being only internal measures—for example they are not measures used only for budgeting purposes. Feedback at the March 2018 GPF meeting indicated that this distinction was not clear.

Incorporate additional disclosure requirements

35. In January 2018 the Board tentatively decided to require the disclosures in Appendix B for MPMs. In this paper the staff is suggesting additional disclosure requirements (see paragraphs 21 and 33). The POD Discussion Paper discusses general requirements for fair presentation of performance measures (see Appendix C). The staff has considered this discussion when proposing disclosures for MPMs. Nevertheless, we may revisit our package of disclosures for MPMs at a future Board meeting after we have considered the feedback received on Section 5—*Use of performance measures in the financial statements* of the POD Discussion Paper.

Staff recommendations and questions for Board members

36. In light of our analysis in paragraphs 11-35, we think our proposals in paragraph 8 should be clarified and simplified by making the following changes:

    (a) further focus our proposals by requiring management to identify a measure (or measures) of profit or comprehensive income that, in the view of management, best communicate(s) to users the financial performance of the entity (see paragraphs 28);

    (b) specify a list of subtotals and totals in paragraph 81A of IAS 1 (see paragraph 14) that would be used for:

        (i) identifying whether a measure is an MPM (ie if a measure is one of these subtotals it would not be an MPM); and

        (ii) the MPM reconciliation (the most directly comparable subtotal or total should be used).

    (c) not specifying additional requirements for the presentation of MPM subtotals (see paragraph 19);

    (d) clarify that an MPM is identified only if it provides relevant information about an entity's financial performance (see paragraph 21);

    (e) require the MPM reconciliation to be disclosed in the notes for all MPMs, including for an MPM presented as a subtotal (see paragraph 25);

    (f) clarify that entities would use their own labels for their MPMs provided they are clear and understandable so they are not misleading (see paragraph 32-33);

    (g) clarify that the measure in (a) is a measure used to communicate with external users, rather than being only an internal measure (see paragraph 34); and

    (h) require some disclosures to support the above changes in addition to the disclosures in Appendix B (see paragraphs 21 and 33).

Question 1
Does the Board agree that we should require the following (these recommendations would update tentative decisions made in December 2017 and January 2018): 1.1. all entities shall identify a measure (or measures) of profit or comprehensive income that is (are) relevant to an understanding of the entity's financial performance and, in the view of management, best communicate(s) to users the financial performance of the entity. 1.2. if an identified measure: (a) is not a subtotal or total required by paragraph 81A of IAS 1 the measure is an MPM and the requirements in paragraph 1.3 apply. (b) is a subtotal or total required by paragraph 81A of IAS 1 the requirements in paragraph 1.3 do not apply, but the entity should identify this measure and explain why it best communicates management's view of the entity's financial performance. Paragraph 81A of IAS 1 would include the existing subtotals in that paragraph and the proposed new subtotals developed as part of this project. 1.3. the following requirements shall apply to a measure identified in paragraph 1.2(a): (a) a reconciliation is disclosed in the notes between that measure and the most directly comparable subtotal or total required by paragraph 81A of IAS 1; (b) the measure is labelled in a clear and understandable way so it is not misleading; (c) there are no specific constraints on how management determines the measure apart from the requirement that it must relevant to an understanding of the entity's financial performance; and (d) the following disclosures would be required as well as those in Appendix B: - an explanation of how the measure provides relevant information about an entity's financial performance; and - a statement that the measure provides management's view of the entity's financial performance and is not necessarily comparable with other entities.

Should we reconsider the location of the MPM reconciliation?

Background

37. In this paper we are recommending that the MPM reconciliation should be disclosed in the notes, rather than below the statement(s) of financial performance (consistent with the Board's tentative decision at its January 2018 meeting).

38. At the March 2018 CMAC meeting, some CMAC members said that it is important for the MPM reconciliation to be easy to locate. Some CMAC members said that it

would be easier for users to locate the MPM reconciliation if it is provided below the statement(s) of financial performance, rather than in the notes.

Staff analysis

39. At previous meetings we have discussed the advantages and disadvantages of providing the MPM reconciliation below the statement(s) of financial performance. The main advantages and disadvantages are summarised below:

(a) advantages:

(i) measures would be reported prominently by preparers, may be more easily located by users (in the absence of structured electronic reporting), and may be more likely to be considered by users; and

(ii) information in the primary financial statements is more often included in information collected by data aggregators and this may also apply to information disclosed together with the primary financial statements.

(b) disadvantages:

(i) some Board members have concerns about giving undue prominence to management-defined measures that are not subject to any constraints; and

(ii) there would be less room for explanation and the supporting MPM disclosures would be in a different location (ie in the notes).

Question 2

In light of the feedback received by CMAC members and also the evolution of our proposals, does the Board wish to revisit our tentative decision to require the MPM reconciliation to be disclosed in the notes to the financial statements rather than be provided below the statement(s) of financial performance?

Appendix A—our proposed constraints on MPM subtotals

A1. At its December 2017 meeting, the Board decided that the MPM should be presented as a subtotal in the statement(s) of financial performance if it fits in the Board's proposed structure for the statement(s) and satisfies the requirements in IAS 1 for subtotals. This would mean the following constraints would be required for an MPM subtotal:

(a) it would need to fit in the following proposed structure of the statement(s) of financial performance (based on the Board's recent discussions):

(i) by function or by nature analysis of expenses;

(ii) business profit subtotal;

(iii) profit before financing, investing and tax subtotal;

(iv) income/expenses from investments category;

(v) profit before financing and tax subtotal; and

(vi) finance income/expenses category.

(b) and would need to:[1]

(i) be relevant to an understanding of the entity's financial performance;

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

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

(iv) be consistent from period to period; and

(v) not be displayed with more prominence than the subtotals and totals required in IFRS Standards, for example profit or loss and total other comprehensive income.

[1] (b)(i) is paragraph 85 and (b)(ii)-(v) is paragraphs 85A of IAS 1.

Appendix B—our proposed disclosure requirements for all MPMs

B1. At the January 2018 Board meeting the Board tentatively decided that the following disclosures should be required for each MPM (including an MPM presented as a subtotal in the statement(s) of financial performance):

(a) a description of why the MPM [best communicates] provides management's view of financial performance, including an explanation of how the MPM has been calculated and why; and

(b) sufficient explanation, if there is a change in how the MPM is calculated during the year, to help users understand the reasons for and effect of the change.

B2. The Board also tentatively decided that the reconciliation between the MPM and the most appropriate subtotal or total required in IFRS Standards should be provided separately from the operating segment information disclosed in accordance with IFRS 8 *Operating Segments*. However, entities would not be prohibited from also including MPMs within the operating segment information. Furthermore, the following disclosures would be required:

(a) an explanation of how the MPM differs from the total of the measures of profit or loss for the reportable segments; and

(b) if the MPM does not fit into the operating segment information, an explanation of why this is the case.

Appendix C—suggested requirements for fair presentation of performance measures in the POD Discussion Paper

C1 Paragraph 5.34 of the POD Discussion Paper suggests the following requirements for how performance measures can be fairly presented in the financial statements:

5.34 Paragraph 15 of IAS 1 states: 'Fair presentation requires the faithful representation of the effects of transactions, other events and conditions…'. Paragraph 2.15 of the *Conceptual Framework* Exposure Draft proposes that to be a perfectly faithful representation, a depiction needs to be complete, neutral and free from error.[2] Considering these characteristics and the requirements introduced by the December 2014 amendments to IAS 1 (see paragraph 5.6), the Board recommends introducing requirements for all performance measures in the financial statements to respond to concerns set out in paragraph 5.11. The Board's preliminary view is that these requirements should require a performance measure to be:

(a) displayed with equal or less prominence than the line items, subtotals and totals in the primary financial statements required by IFRS Standards;

(b) reconciled to the most directly comparable measure specified in IFRS Standards to enable users of financial statements to see how the performance measure has been calculated;

(c) accompanied by an explanation in the notes to the financial statements of:

  (i) how the performance measure provides relevant information about an entity's financial position, financial performance or cash flows;

  (ii) why the adjustments to the most directly comparable measure specified in IFRS Standards in (b) have been made;

  (iii) if the reconciliation in (b) is not possible, why not; and

  (iv) any other information necessary to aid understanding of the measure (ie the information should provide a complete depiction).[3]

(d) neutral, free from error and clearly labelled so it is not misleading;

(e) accompanied by comparative information for all prior periods presented in the financial statements;

[2] Paragraphs 2.16–2.19 of the *Conceptual Framework* Exposure Draft explain these three characteristics of faithful representation. Paragraph 2.14 also states that a faithful representation depicts the substance of an economic phenomenon rather than just its legal form.

[3] Such an explanation would mean that entities would have to provide their rationale for making adjustments as well as a list of all adjustments.

(f) classified, measured and presented consistently to enable comparisons to be made over time, except when IFRS Standards require a change in presentation, as stated in paragraph 45 of IAS 1;[4]and

(g) presented in a way that makes it clear whether the performance measure forms part of the financial statements and whether it has been audited.

Appendix D— Illustrative disclosure of MPM and adjusted EPS reconciliation

(Note: This appendix only illustrates a possible disclosure for the MPM reconciliation and does not provide the disclosures in Appendix B)

Entity has identified adjusted profit before investing, financing and tax as an MPM

		Adjustments to reach MPM			
	IFRS	Restructuring charges	Amortisation of intangibles	Share-based payment expenses	Adjusted
Profit before investing, financing and tax	1000	300	200	450	**1950**
Income/expenses from investments	100				100
Finance income/expenses	(100)				(100)
Income tax	(160)	(32)	(0)	(45)	(237)
NCI	(40)	(0)	(10)	(9)	(59)
Profit attributable to ordinary equity holders of the parent entity	800	268	190	396	1654
EPS	0.080	0.027	0.019	0.039	0.165

[4] Paragraph 45 of IAS 1 requires an entity to retain the same presentation and classification of items from one period to the next unless another presentation or classification is considered more appropriate, taking into account the criteria in IAS 8, or if an IFRS Standard requires a change in presentation.