

CMAC Meeting, February 2018

Agenda Paper 2B

Primary Financial Statements Presentation of the share of profit or loss of associates and joint ventures

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The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (Board) or the IFRS Foundation.

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Objective of the discussion

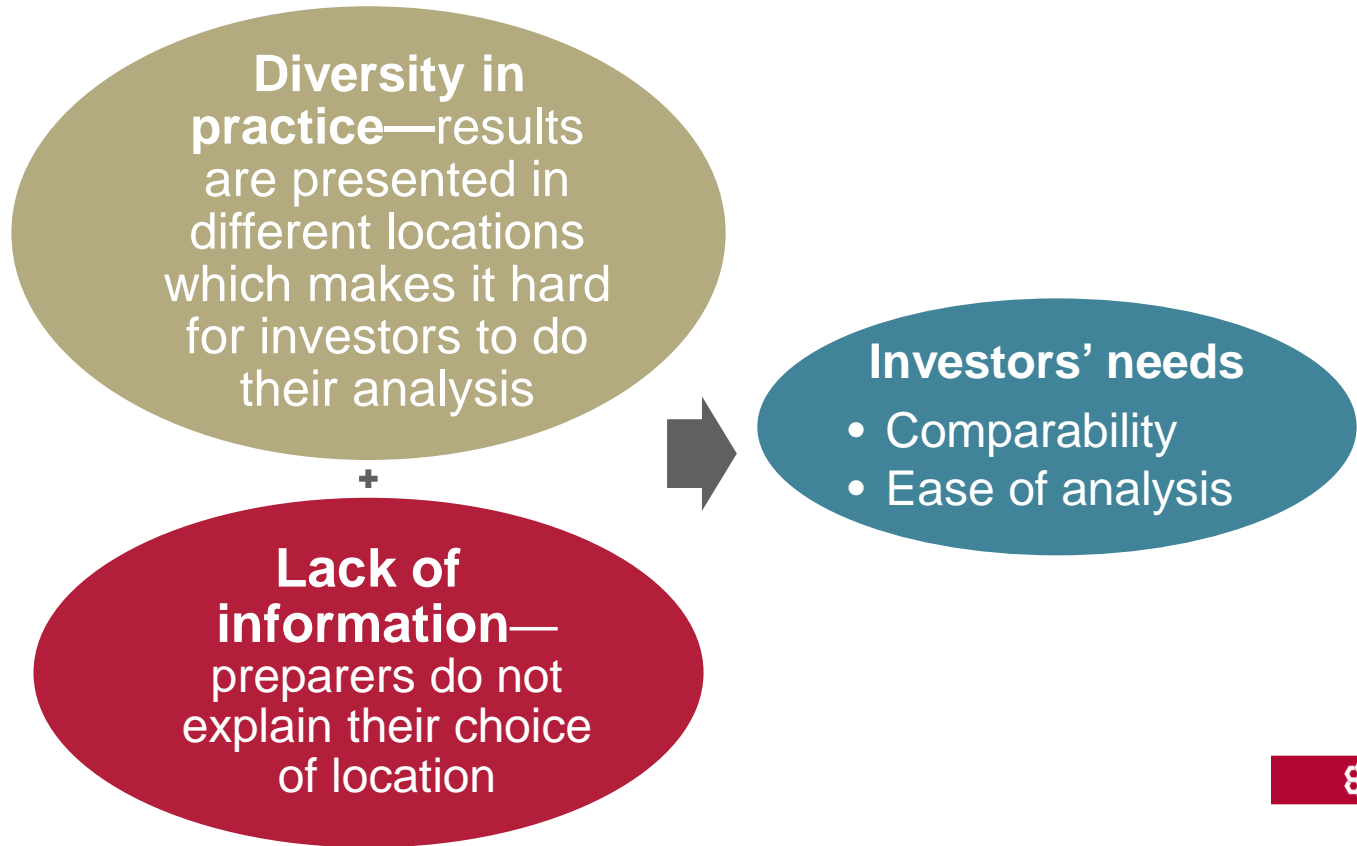
Location in the statement(s) of performance

- Where should the share of the profit or loss of associates and joint ventures be presented?

Separating 'integral' and 'non-integral' results

- Should preparers separate the results of 'integral' and 'non-integral' associates and joint ventures?
- Should 'integral' be defined? If so, how?

Why improve the presentation of the share of profit or loss of associates and joint ventures?



Recap of previous discussions



Location in the statement(s) of performance

Definition of 'income/expenses from investments' category

Meeting	Outcome
<p>November 2017 Board meeting</p>	<p>The Board tentatively decided to introduce an 'income/expenses from investments' category in the statement of financial performance and define it using a principle-based approach as:</p> <p><i>'income/expenses from assets that generate a return individually and largely independently of other resources held by the entity'</i></p> <p>The Board also decided to provide a list of some of the items that would typically be treated as 'income/expenses from investments' . For example:</p> <ul style="list-style-type: none">• rental income on investment property for companies that do not treat such investments as a significant part of their operations; or,• dividends on non-consolidated equity investments.



Location in the statement(s) of performance

7

Should the share of profit or loss of associates and joint ventures be presented within the 'income/expenses from investments' category?

Meeting	Outcome
November 2017 Board meeting	<p>Mixed views:</p> <ul style="list-style-type: none"><li data-bbox="479 518 1831 613">• <u>View 1</u>: present results from <u>all</u> associates and joint ventures within the 'income/expenses from investments' category.<li data-bbox="479 674 1758 821">• <u>View 2</u>: split results from associates and joint ventures between 'integral' (within 'business' results) and 'non-integral' (within the 'income/expenses from investments' category).



Separation of 'integral' results

Why is it useful to separate the share of profit or loss of 'integral' associates and joint ventures?

Meeting	Outcome
Jan 2018 Board meeting	<ul style="list-style-type: none">• Board members supported separate presentation, because there seems to be a need for users to be able to identify separately the results of integral and non-integral associates and joint ventures.



How to distinguish between ‘integral’ and ‘non-integral’ associates or joint ventures?

Meeting	Outcome
<p>Jan 2018 Board meeting (cont'd)</p>	<p>Board members analysed some views on how to make the distinction between ‘integral’ and ‘non-integral’ . The views are presented below. The Board favoured View 2:</p> <ul style="list-style-type: none">• <u>View 1</u>: treat all joint ventures as ‘integral’ and all associates as ‘non-integral’.• <u>View 2</u>: (favoured by the Board)—use our proposed definition of ‘income/expenses from investments’ (refer to slide # 6) to make the split between ‘integral’ and ‘non-integral’ and provide further guidance to help making this distinction.• <u>View 3</u>: develop a definition of ‘integral’.<ul style="list-style-type: none">• are the activities of an associate or joint venture <i>integrated</i> into an entity’s business/operating activities?• are the activities of an associate or joint venture <i>essential and fundamental</i> to the investor?

Potential presentation alternatives

*Alt 1—no split,
the share of results from associates and
JVs within the investing section*

Revenue
...
<i>Profit before investments, financing and income tax</i>
Income/expense from investments Share of profit or loss of associates and JVs
Other investing income
<i>Profit before financing and income tax</i>
Finance income
Finance expense
Pre-tax profit
Taxation
Profit or loss

*Alt 2—split of 'integral/non-integral' share of
results within the investing section*

Revenue
...
<i>Profit before investments, financing and income tax</i>
Income/expense from investments Share of profit or loss of integral associates and JVs Share of profit or loss of non-integral associates and JVs
Other investing income
<i>Profit before financing and income tax</i>
Finance income
Finance expense
Pre-tax profit
Taxation
Profit or loss

Potential presentation alternatives

11

Alt 3—split of 'integral' and 'non-integral' share of results above and below investing

Revenue

...

Share of profit or loss of integral associates and JVs

Profit before investments, financing and income tax

Income/expense from investments
Share of profit or loss of nonintegral associates and JVs

Other investing income

Profit before financing and income tax

Finance income

Finance expense

Pre-tax profit

Taxation

Profit

Alt 4—Require additional subtotal so that 'integral' results are shown in separate section

Revenue

Business profit subtotal

Share of profit or loss of integral associates and JVs

Profit before investments, financing and income tax

Income/expense from investments

Share of profit or loss of non-integral associates and JVs

Other investing income

Profit before financing and income tax subtotal

Finance income

Finance expense

Pre-tax profit

Taxation

Profit

**Alternative
favoured by
the Board**

Questions for CMAC members

Q1

Do you think it is useful to present separately the share of profit or loss of ‘integral’ associates and joint ventures from ‘non-integral’ associates or joint ventures in the statement(s) of financial performance?

Q2

How do you think ‘integral’ associates or joint ventures could be distinguished from ‘non-integral’ associates or joint ventures (see slide 9 for the alternatives considered by the Board)?

Q3

Which of the alternatives in slides # 10 and # 11, do you support for presenting the share of the profit or loss of 'integral' and 'non-integral' associates and joint ventures, and why?

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