
Primary Financial Statements

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Before we start

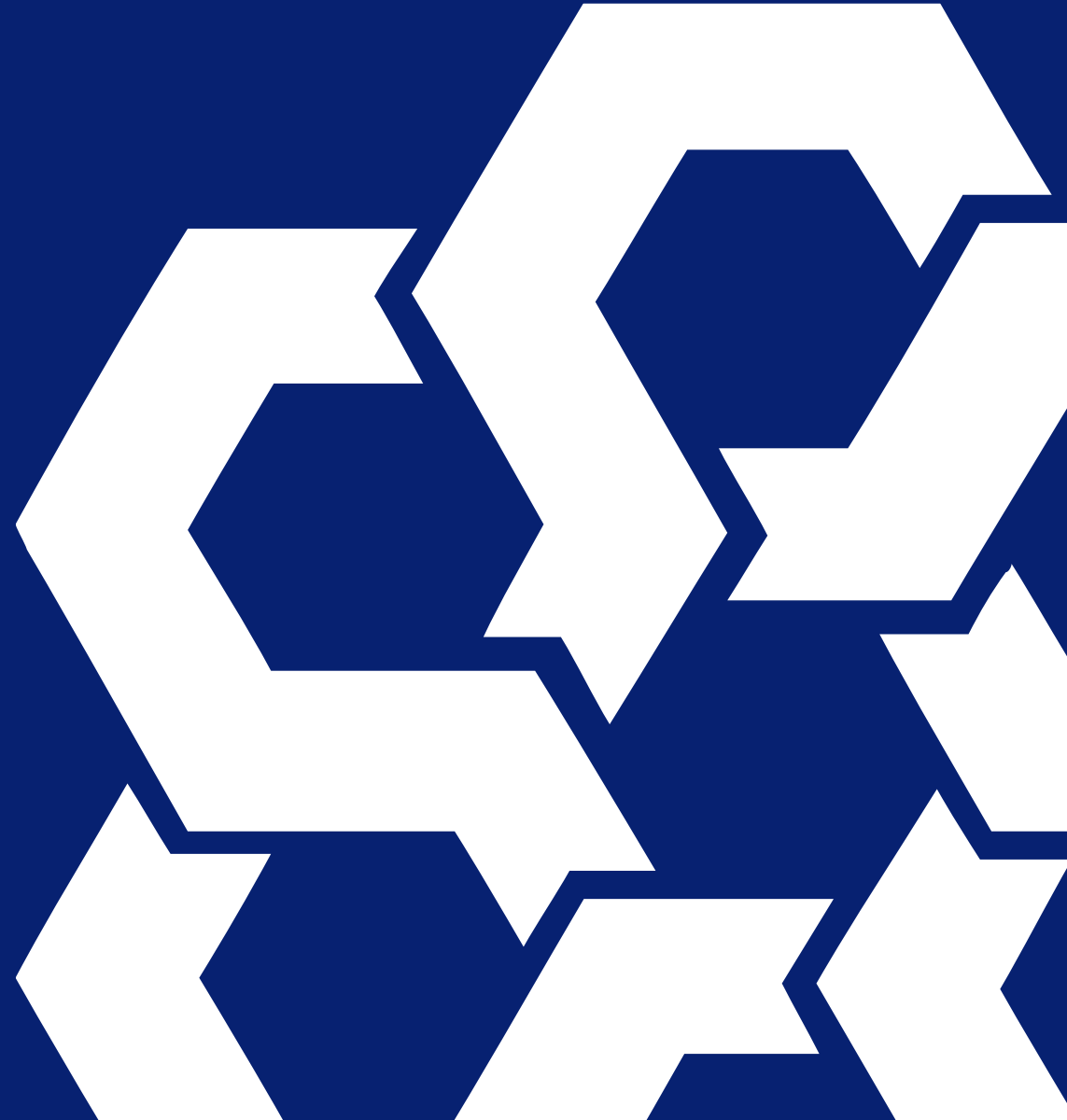
Housekeeping

The Exposure Draft, its accompanying documents and the slides used in this presentation are available for download on the Primary Financial Statements project webpage at www.ifrs.org/projects/work-plan/primary-financial-statements.

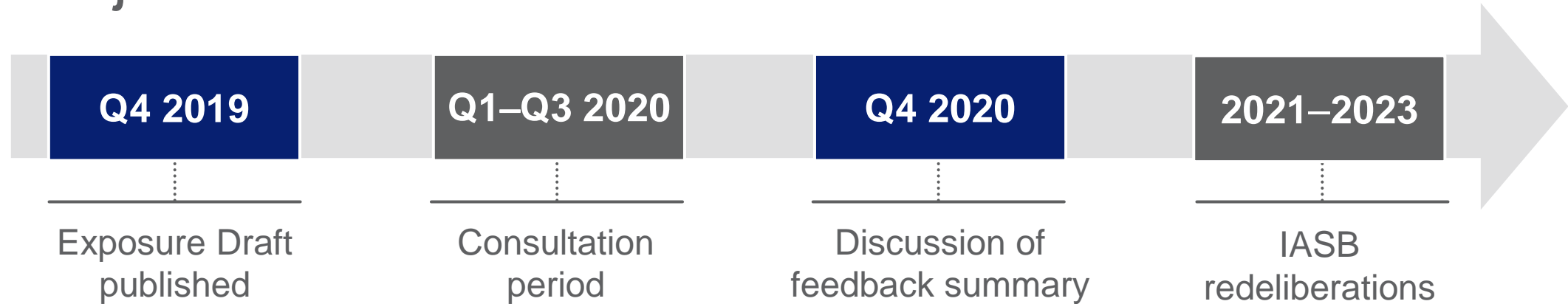
The views expressed are those of the presenters, not necessarily those of the International Accounting Standards Board (IASB) or the IFRS Foundation

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Project overview



Project overview



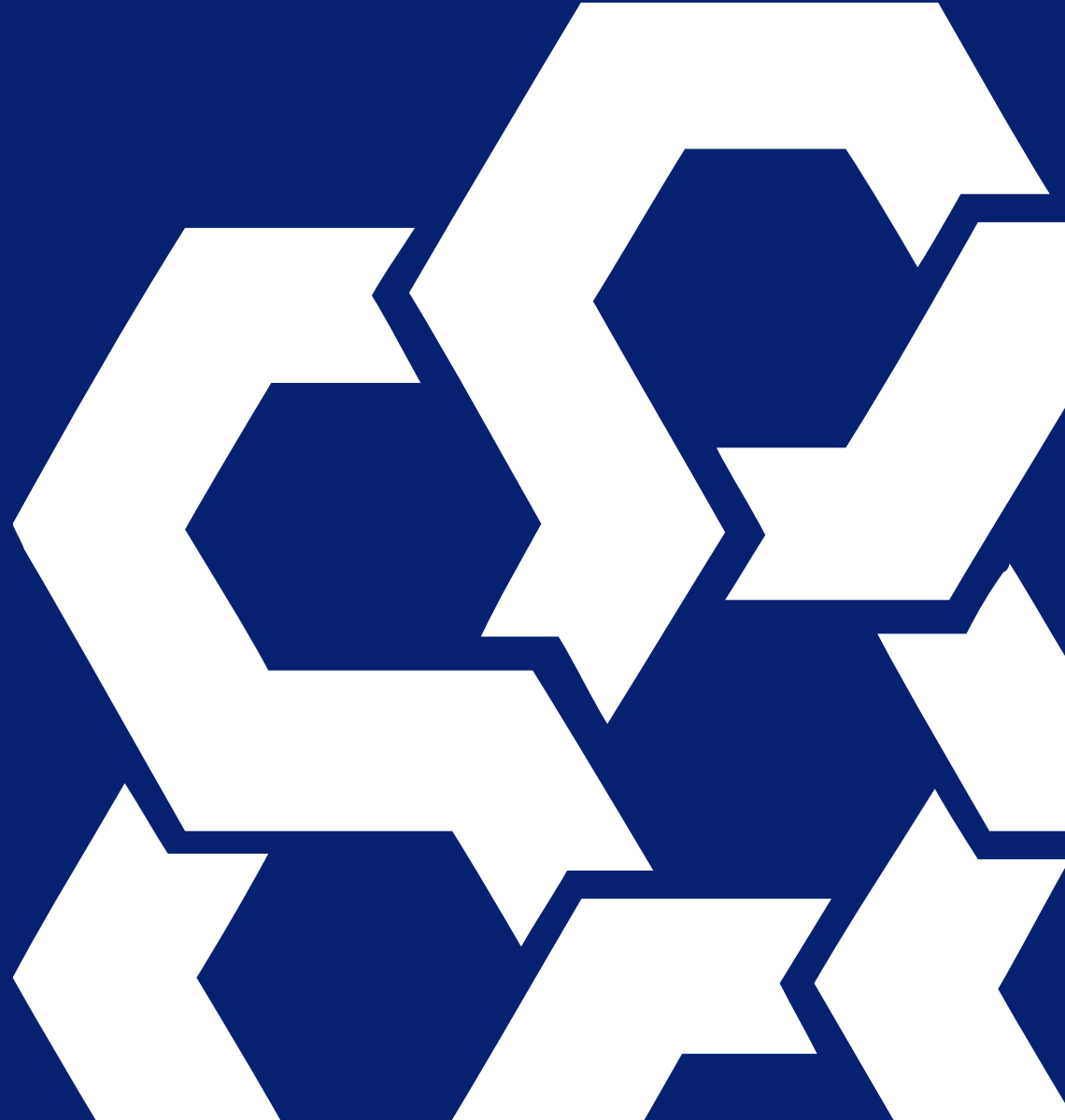
Objective

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

Main proposals

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

Subtotals



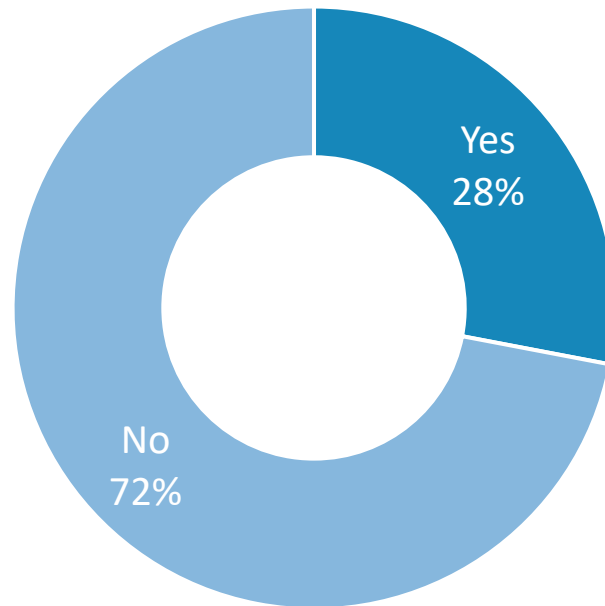
What is the issue?

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

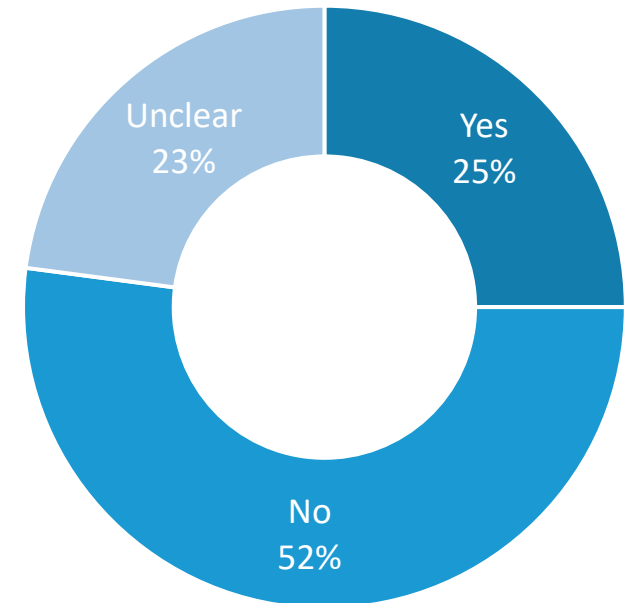
Companies calculate subtotals in different ways

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

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



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



What are the new subtotals and categories?

Revenue

Other income

Changes in inventories of finished goods and work in progress

Raw materials used

Employee benefits

Depreciation

Amortisation

Professional fees and other expenses

Operating profit

Income and expenses from associates and joint ventures

Income and expenses from investments

Income and expenses from cash and cash equivalents

Profit before financing and income tax

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

Unwinding of discount on provisions

Profit before tax

Income tax

Profit for the year

Operating

Investing

Financing

Line items illustrate what is included in each category and do not necessarily denote specified line items.

What is in the operating category?

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

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

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

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

- The category is intended to provide a **complete** picture of the entity's operations for the period

What is in the investing category?

- Income and expenses from associates and joint ventures accounted for using the equity method
- Income and expenses from assets that generate a return individually and largely independently of other resources held by an entity, including cash and cash equivalents

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

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

What is in the financing category?

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

A transaction that involves only the raising of finance is a transaction that involves:

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

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

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

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

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

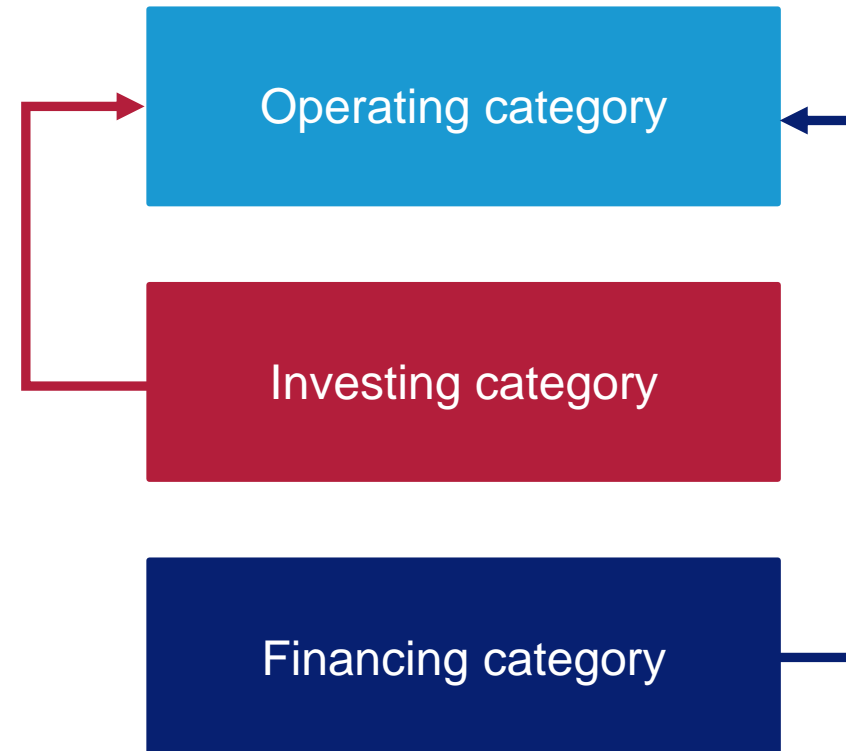
★ *Change in classification of income and expenses within the financing category included in targeted outreach topics*

Entities with specified main business activities

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



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



Entities that provide financing to customers as a main business activity

Operating

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

- Classified in the operating category by entities that provide financing to customers as a main business activity, such as banks and entities that provide financing to customers to purchase the entity's products
- Accounting policy choice whether to classify in the operating category **all** such income and expenses or **only** those related to providing financing to customers

Financing

Specified income and expenses from other liabilities classified in the financing category (same approach for all entities)

Entities that invest as a main business activity

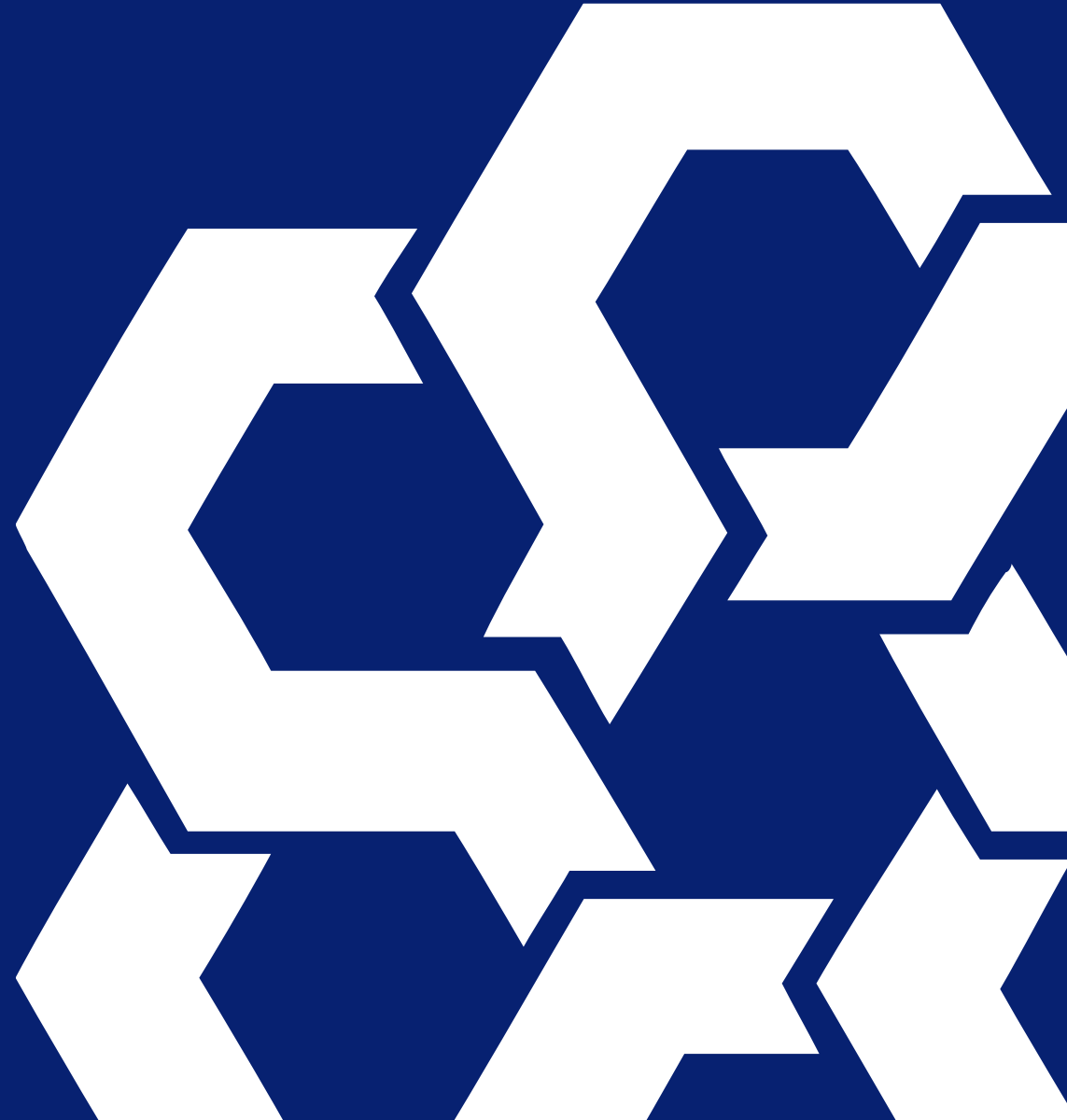


★ *Withdrawal of the proposal in the Exposure Draft for entities that provide financing to customers as a main business to be explored in targeted outreach*

Questions



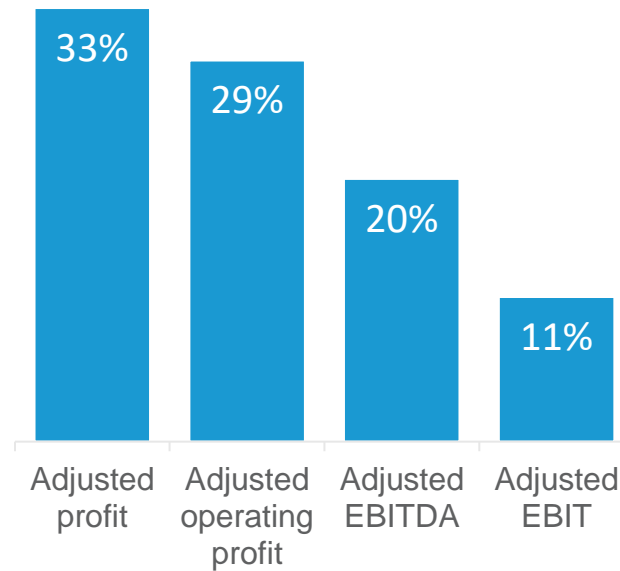
Management performance measures



What is the issue?

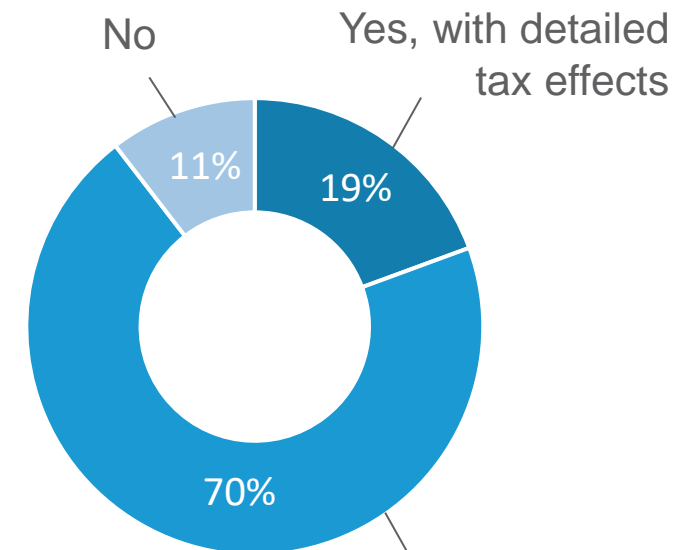
- Many companies provide performance measures defined by management in communications with investors
- Investors have said such measures can provide useful information, but should be used in a more transparent and disciplined way

Common management-defined performance measures



% of companies using measure in annual report

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



Yes, with limited or no information on tax effects

What are MPMs?

Performance measures

Non-Financial performance measures

For Example:

- Number of subscribers
- Customer satisfaction score
- Store surface

Financial performance measures

(Sub)totals of income and expenses

IFRS-Specified

For example:

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

MPMs

For example:

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

Other measures that are not subtotals of income/expenses

For example:

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

How will MPMs be defined?

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

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



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

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



What disclosures will be required for MPMs?

Reconciliation



Reconciliation between MPM and the most directly comparable subtotal or total specified by IFRS Accounting Standards, including the income tax effect and effect on non-controlling interests ★★

Why an MPM communicates management's view



Includes an explanation of how the MPM is calculated and how the measure provides useful information about the entity's performance. Explanation should refer to individual reconciling items where necessary

Not necessarily comparable with other entities



A statement that MPM provides management's view of an aspect of the entity's financial performance and is not necessarily comparable with measures provided by other entities

Changes in calculation



Explanation of any changes in how the entity calculates its MPMs or which MPMs it provides ★

★ *To be discussed at a future IASB meeting*

★★ *Included in targeted outreach topics*

What might a reconciliation look like?

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



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

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

Simplified approach to calculating the tax effect ★★

★ *To be discussed at a future IASB meeting*

★ *Included in targeted outreach topics*

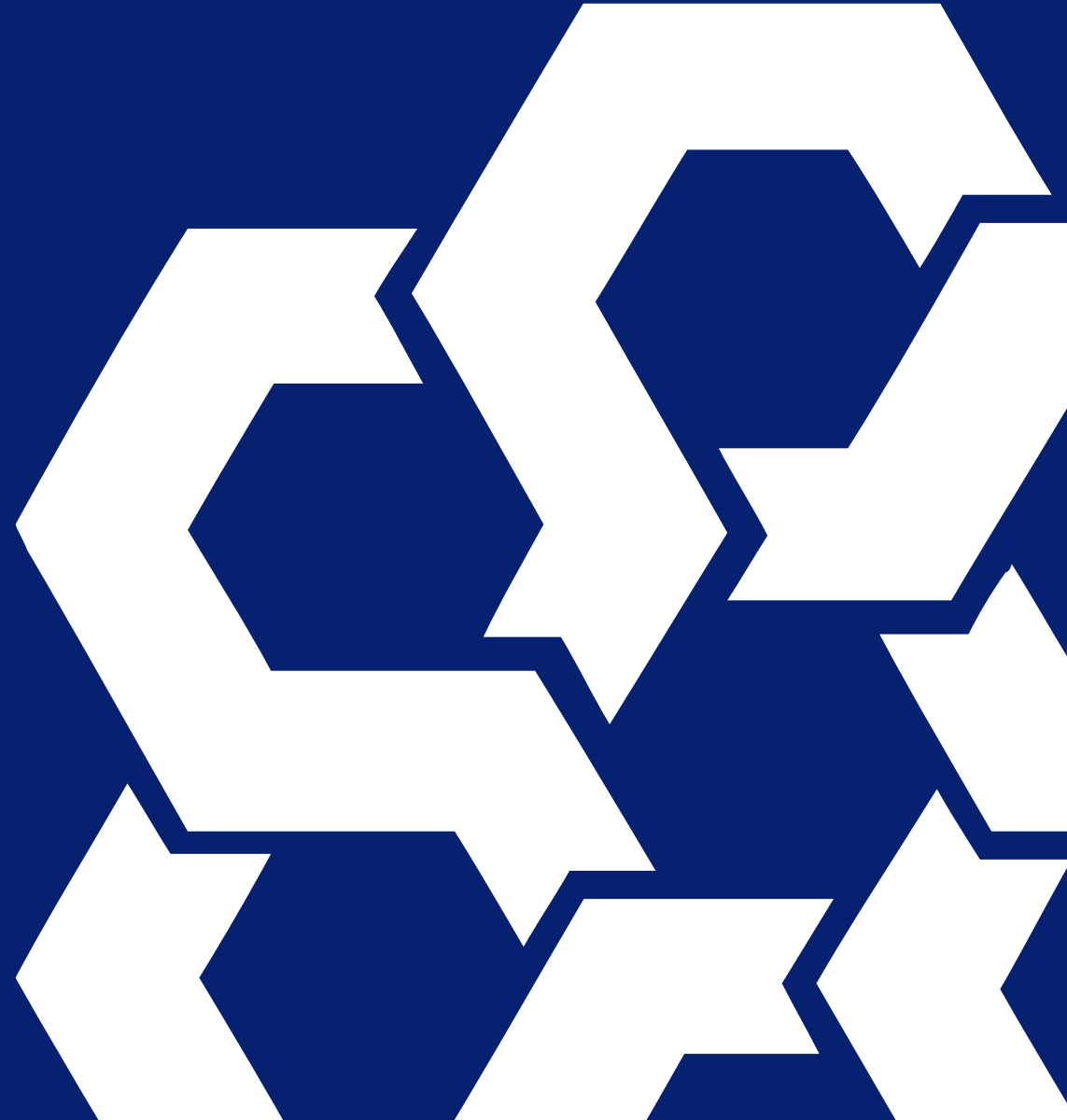
How does EBITDA fit in the proposals?

The IASB is proposing to define

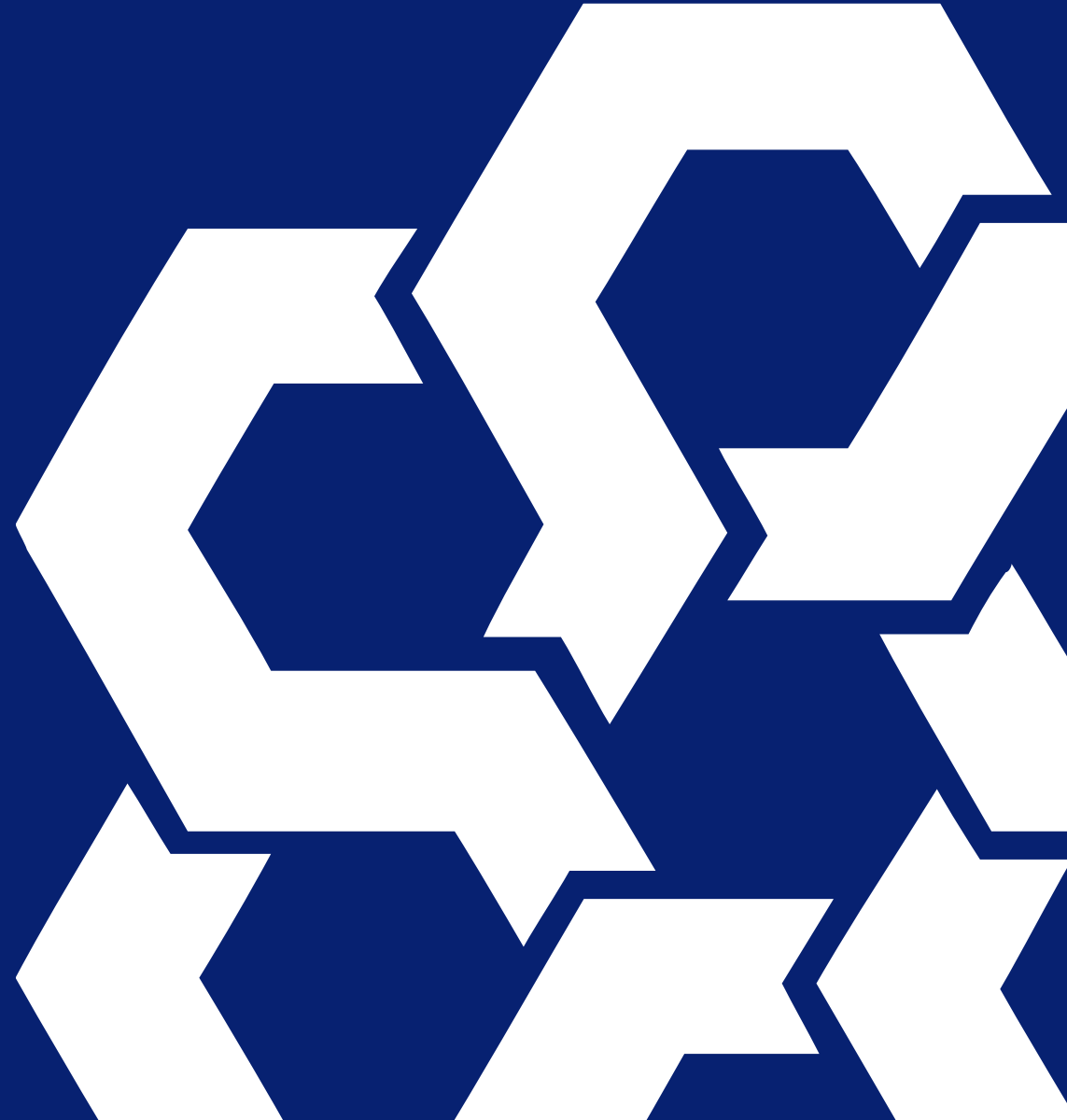
‘operating profit before depreciation, amortisation and specified impairments’

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

Questions



Disaggregation



What is the issue?



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

What will be the disaggregation requirements?

<p>General requirements and specified line items</p>	<p>Roles of the primary financial statements (PFS) and the notes</p>	<p>Principles for aggregation and disaggregation ★</p>
	<p>Specified line items</p>	<p>Grouping dissimilar immaterial items, avoiding 'other' labels ★</p>
<p>Specific requirements</p>	<p>Present operating expenses by nature and by function (mixed approach permitted) Disclosure of amounts included in each line item of profit or loss for depreciation, amortisation and employee benefits ★★</p>	<p>Disclosure of unusual income and expenses (<i>proposal withdrawn</i>)</p>

★ To be discussed at a future IASB meeting

★★ Included in targeted outreach topics

What would be the general requirements?

Roles of PFS and
the notes



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

Principles for
aggregation and
disaggregation



- Single dissimilar characteristic can be enough to disaggregate if resulting information is material
- Application guidance on when disaggregation in the notes would result in material information and when disaggregation in the PFS would result in a more understandable overview ★

Specified line
items



- New specified line items, including goodwill in the statement of financial position

Grouping dissimilar
immaterial items,
avoiding 'other'
labels



- Use meaningful labels for groups of immaterial items, avoiding line items such as 'other expenses'
- If that is not possible, entities required to provide information in the notes about the content of such groups of items ★

Understandable overview and specified line items

The IASB has tentatively decided to provide guidance on disaggregation in the primary financial statements and in the notes

Primary financial statements

- Disaggregate when it results in a more **understandable overview**
- **Specified line items** are presented in primary financial statements when it does not detract from providing an understandable overview

Disclosure in the notes

- Disaggregate when it results in **material information**
- **Specified line items** not presented in the primary financial statements are disclosed in the notes when material

Disclosure of operating expenses by nature in the notes

The Exposure Draft proposed that an entity that reports expenses by function in the statement of profit or loss discloses in the notes an analysis of total operating expenses by nature



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

Some respondents (preparers and their representative bodies) disagreed



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

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



To be discussed at a future IASB meeting



Included in targeted outreach topics

Unusual income and expenses

The Exposure Draft proposed a definition of unusual income and expenses and disclosure requirements (for example, an entity would disclose the line item(s) in the statement of financial performance in which unusual income and expenses are included and narrative information)



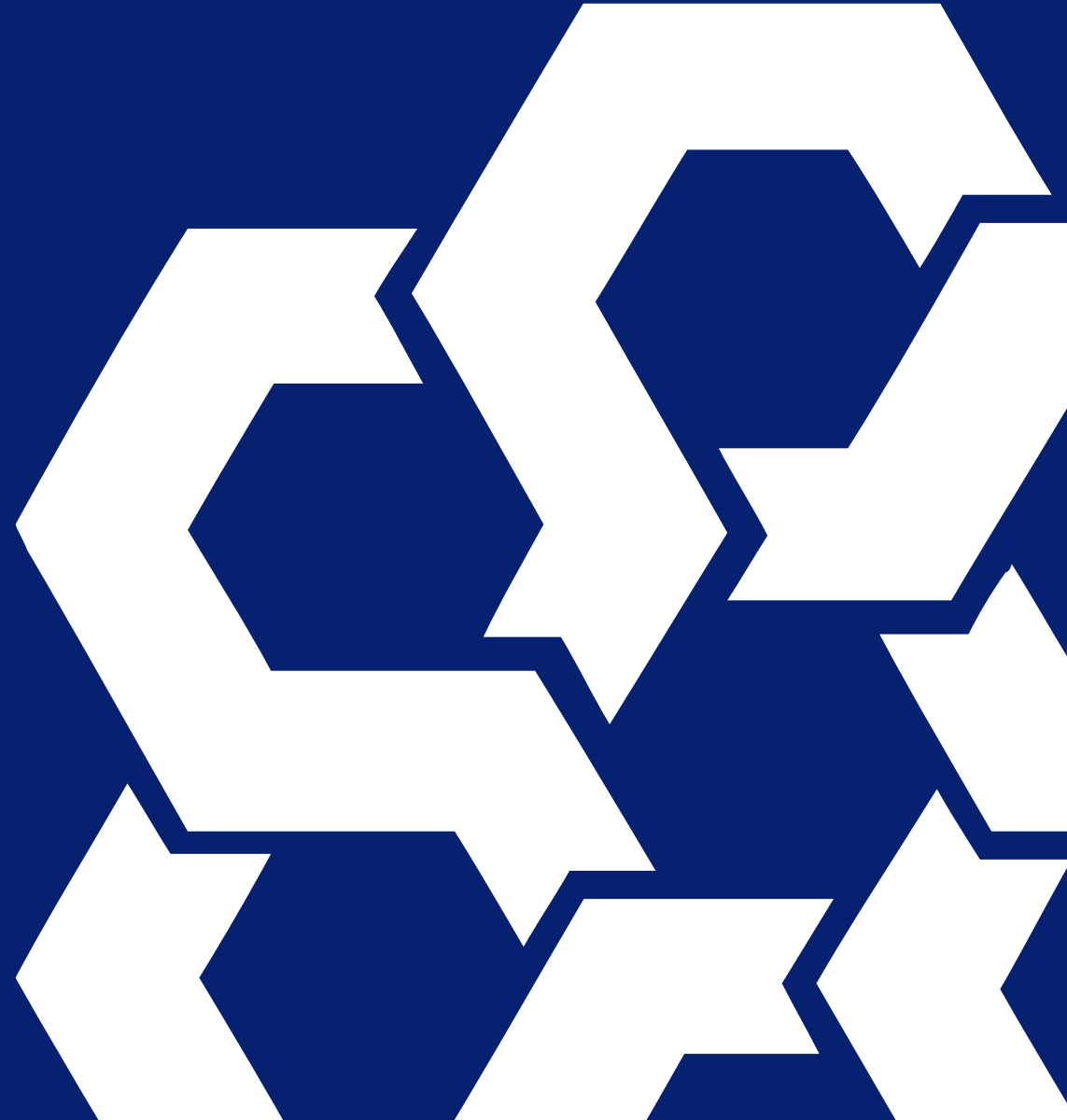
Most agreed with the IASB developing a definition, but also said the definition was too subjective, that it included income and expenses that some did not view as unusual, and that more application guidance was required

- The IASB has been working on a revised definition of unusual items – focusing on reducing the subjectivity and limiting the population of items captured by the definition
- Discussions with stakeholders and IASB members over the last nine months have not led to a consensus on what the population of unusual income and expenses should be



The IASB tentatively decided not to proceed with the specific requirements for unusual income and expenses as part of this project

Questions



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