

STAFF PAPER

July 2019

IASB® meeting

Project	Primary Financial Statements		
Paper topic	Due process steps and permission to begin the balloting process		
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Introduction

1. This paper:
 - (a) summarises the due process steps taken to date;
 - (b) recommends the length of the comment period for the Exposure Draft;
 - (c) requests permission for the staff to begin the balloting process for an Exposure Draft; and
 - (d) asks if any Board member plans to dissent from the proposals in the Exposure Draft.

Overview

2. This paper is structured as follows:
 - (a) previous due process decisions (paragraphs 3–7);
 - (b) summary of due process steps for publication of an Exposure Draft (paragraphs 8–19);
 - (c) confirmation of due process steps and dissents (paragraphs 20–21);
 - (d) Appendix A—due process steps taken in the development of the Exposure Draft for Primary Financial Statements;

- (e) Appendix B—public meetings of the Board and its consultative groups that discussed this project; and
- (f) Appendix C—summary analysis of the expected effects of the project proposals.

Previous due process decisions

3. The Primary Financial Statements project is part of the Board’s plan to promote Better Communication in Financial Reporting. This project aims to improve the structure and content of the primary financial statements¹, with a focus on the statement(s) of financial performance.
4. The project started in 2016, in response to feedback received during the Board’s 2015 agenda consultation when many stakeholders identified this project as a priority. The appendix to Agenda Paper 21 provides an overview of the project scope and the Board’s proposals.
5. In its September 2018 meeting the Board moved the Primary Financial Statements project from the research programme to the standard-setting programme (see September 2018 [AP21E](#)). In making that decision, the Board considered whether the benefits of the improvements to financial reporting arising from this project are likely to outweigh the costs of preparing the information. In the same meeting, the Board decided not to form a consultative group for the project because the Board’s standing consultative groups have the necessary experience and expertise to provide feedback and advice on the project proposals.
6. In its May 2019 meeting, the Board decided to issue an exposure draft, rather than a discussion paper, as its next consultation document because:
 - (a) there is strong demand from users for this project. An exposure draft is likely to respond to that demand on a more timely basis than a discussion paper.

¹ Primary financial statements include the statement of financial position, the statement(s) of financial performance, the statement of changes in equity and the statement of cash flows.

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- (b) users strongly support the overall direction of the project and most of the proposals, suggesting that the project would improve the usefulness of information in the financial statements.
 - (c) the problems are well defined, and the proposals are sufficiently detailed for publication of an exposure draft.
 - (d) the Board has received stakeholder input through extensive outreach and related consultations on other projects, for example the *Principles of Disclosure* Discussion Paper.
 - (e) drafting is critical for many of the proposals. An exposure draft will allow the Board to test the drafting.
7. Throughout its discussions on the project, the Board has considered effects of the proposals. A summary analysis of the effects of the project proposals is included in Appendix C. The Exposure Draft will include a more detailed analysis of the effects of the proposals.

Summary of due process steps for publication of the Exposure Draft

8. The following sections discuss the due process steps undertaken during the project. This section should be considered in conjunction with Appendix A, which provides a more detailed account of the due process steps undertaken.
9. Paragraph 6.6 of IFRS Foundation *Due Process Handbook* states that:
- When the IASB has reached general agreement on the technical matters in the project and has considered the likely effects of the proposals, the technical staff present a paper to the IASB:
- (a) summarising the steps that the IASB has taken in developing the proposals, including a summary of when the IASB discussed this project in public meetings, the public hearings held, outreach activities, meetings of consultative groups and consultation with the Advisory Council;
 - (b) if applicable, reaffirming why the IASB has decided that it was not necessary to have a consultative group or to conduct fieldwork; and

- (c) recommending a comment period for the Exposure Draft.

Steps taken in developing proposals

10. In reaching its tentative decisions, the Board held a total of 24 public meetings between June 2015 and June 2019, covering 66 different topics.
11. In addition to public meetings of the Board, the project was also discussed on 23 separate occasions with the Board's standing consultative groups, including the Capital Markets Advisory Committee (CMAC), the Global Preparers Forum (GPF), the Emerging Economies Group and the Accounting Standards Advisory Forum (ASAF), with further meetings planned during the next few months. The implications of the proposals for electronic reporting were discussed with the IFRS Taxonomy Consultative Group.
12. An education session for IFRS Advisory Council members was held in October 2016. Separately, the Due Process Oversight Committee (DPOC) and the IFRS Advisory Council were informed of the progress of the project through technical updates on a regular basis.
13. Appendix B includes a full list of Board meetings and meetings with consultative groups.
14. Furthermore, Board members and the staff performed extensive outreach with external stakeholders between February 2016 and June 2019. A total of 117 outreach meetings were conducted with various stakeholders, 53 of which were with users of financial statements. Other meetings included preparers, academics, regional standard-setters, regulators and other stakeholders. Discussions were held on a variety of topics and were conducted throughout the course of the project.
15. These meetings allowed the Board to:
 - (a) exchange views with various stakeholders;
 - (b) explain the goals and objectives of the project, as well as to clarify technical details if needed; and
 - (c) gather early feedback for project proposals, allowing for clarification or amendment of tentative decisions where necessary.

16. The Board did not undertake two optional (comply or explain) due process steps in this project:
- (a) in its September 2018 meeting, the Board decided not to form a dedicated consultative group for the project (see paragraph 5).
 - (b) in its May 2019 meeting, the Board decided to issue an exposure draft, rather than a discussion paper (see paragraph 6)

Comment period

17. Paragraph 6.7 of the *Due Process Handbook* states that the Board normally allows a minimum period of 120 days for comment on an exposure draft.
18. The proposals in this project affect presentation and disclosure requirements and do not involve complex recognition and measurement issues. Consequently, it could be argued that a comment period of 120 days would be sufficient to enable stakeholders to comment on the proposals. However, we think that the comment period should be longer than 120 days because:
- (a) the project proposals are pervasive and will affect every stakeholder; and
 - (b) this is the first consultation document for the project.
19. Based on our experience of recent major projects, we believe a comment period of 180 days is appropriate and should allow stakeholders sufficient time to comment on the proposals. This means that, with planned publication of the Exposure Draft at the end of December 2019, the comment period will run until the end of June 2020 and the staff will present analysis of feedback received in autumn of 2020.

Confirmation of due process steps and dissents

20. This paper demonstrates that the Board has completed all the steps necessary for the balloting of the Exposure Draft. Consequently, the staff is requesting permission to begin the balloting process.
21. In accordance with paragraph 6.9 of the *Due Process Handbook*, we are asking whether any Board member intends to dissent from the proposed Exposure Draft.

Questions 1, 2 and 3 for Board members

1. **Comment Period:** does the Board agree with the staff recommendation to allow 180 days for comment on the Exposure Draft?
2. **Permission to ballot:** is the Board satisfied that it has complied with the applicable due process steps and that it should begin the balloting process for the Exposure Draft?
3. **Dissents:** does any Board member intend to dissent from the proposals in the Exposure Draft?

Appendix A—Due process steps taken in the development of the Exposure Draft for Primary Financial Statements

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
Board meetings held in public, with papers available for observers. All decisions are made in public session.	Required	<p>The Board held a total of 24 public meetings from June 2015 to June 2019, during which a total of 66 topics were discussed. All recordings and meeting papers are publicly available at www.ifrs.org.</p> <p>Please refer to Appendix B for a list of public meetings discussing the project.</p>
Consultation with the Trustees and the Advisory Council.	Required	<p>A discussion of the Primary Financial Statements project was held with the Advisory Council in October 2016. In September 2018, the Advisory Council was consulted about adding the Primary Financial Statements project to the Board’s standard-setting agenda.</p> <p>The Trustees and Advisory Council were provided with technical updates relating to the project during each meeting.</p>
Consultative groups used, if formed.	Optional	<p>The Board decided in its September 2018 meeting not to form a dedicated consultative group and instead use its standing consultative groups to provide feedback and advice on the project.</p>
Fieldwork is undertaken to analyse proposals.	Optional	<p>A total of 117 outreach meetings were conducted between February 2016 and June 2019 with various stakeholders, which included discussions about likely effects of the proposals. In addition, the staff performed research to understand current industry practices based on a sample of 85 non-financial and 15 financial companies across different jurisdictions and industries to analyse how the project proposals might affect them.</p> <p>Further research will be performed during the comment period, with the scope yet to be decided.</p>
Webcasts and podcasts to provide interested parties with high-level updates or other useful	Optional	<p>In April 2019, the Board finalised major tentative technical decisions relating to the project. This meeting, and many previous Board meetings, was followed by a podcast which provided an update on the PFS project. We plan further webcasts and podcasts as we get closer to the publication of the Exposure Draft.</p>

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
information about specific projects.		
Online survey to generate evidence in support of or against a particular approach.	Optional	The staff and the Board have performed extensive stakeholder outreach during the development of proposals in the project. Formal online surveys were not considered necessary however we have used online survey tools during outreach events, such as IFRS Conferences.
Outreach meetings with a broad range of stakeholders, with special effort to consult investors.	Optional	<p>Board members and staff have, since February 2016, conducted extensive outreach with various stakeholder groups. These meetings included:</p> <ul style="list-style-type: none"> • public meetings with the Board’s various standing advisory bodies and consultative groups (please refer to Appendix B for a list of public meetings held). • a total of 117 outreach meetings with other stakeholders to understand how the various project proposals might affect them. These included: <ul style="list-style-type: none"> ○ 53 meetings with users, 9 of which were with buy-side analysts; ○ 8 meetings with national standard-setters (excluding meetings with ASAF); ○ 20 meetings with regulators; ○ 14 meetings with preparers; ○ 10 conferences with accounting professionals and auditors; ○ 6 meetings with academics; and ○ 6 meetings with other stakeholders. <p>Input gathered from these meetings was used in the development of the project proposals.</p>
Public discussions with representative groups.	Optional	
The IASB hosts regional discussion forums, where possible, with national standard-setters.	Optional	
Round-table meetings between external participants and members of the IASB.	Optional	
Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.	Required	
Finalisation		
Due process steps reviewed by the IASB.	Required	This paper asks the Board to review the due process steps taken for the project and whether the Board is satisfied that it has complied with all the applicable requirements.

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
The ED has an appropriate comment period.	Required	This paper seeks the Board’s approval for a comment period of 180 days. The proposed comment period is beyond the minimum period specified in the paragraph 6.7 of the <i>Due Process Handbook</i> , and accordingly, no special approval is required from the DPOC.
Drafting		
Drafting quality assurance steps are adequate — The Translations team has been included in the review process.	Required	We plan to ask the translations team to review a draft of the Exposure Draft.
Drafting quality assurance steps are adequate — The IFRS Taxonomy team has been included in the review process.	Required	<p>The project team includes members of IFRS Taxonomy team. They have been considering the effects of project proposals on electronic reporting during the development of the proposals. The IFRS Taxonomy team will review a draft of the Exposure Draft during the balloting process.</p> <p>The staff discussed the implications of the project proposals with the IFRS Taxonomy Consultative Group in October 2016, April 2018 and June 2019.</p>
Drafting quality assurance steps are adequate — The Editorial team has been included in the review process. In addition, external reviewers are used to review drafts for editorial review and the comments collected are considered by the IASB.	Optional	<p>The editorial team will be involved in the review of the Exposure Draft throughout the drafting process.</p> <p>The team also plan to use external reviewers during the balloting process.</p>
Drafting quality assurance steps are adequate — Drafts for	Optional	A draft of the Exposure Draft will be made available on the IFASS SharePoint site.

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
editorial review have been made available to members of the International Forum of Accounting Standard-Setters (IFASS) and the comments have been collected and considered by the IASB.		
Drafting quality assurance steps are adequate — Review draft has been posted on the project website.	Optional	There is no plan to post a review draft on the project website. The project website however will include a summary of the proposals.
Publication		
ED published.	Required	The Exposure Draft will be published on the project website and in hardcopy.
Press release to announce publication of ED.	Required	We plan to issue a press release accompanying the publication of the Exposure Draft.
Snapshot document to explain the rationale and basic concepts included in the ED.	Optional	A project summary explaining key elements of the Exposure Draft will be published alongside the Exposure Draft.

Appendix B—Public meetings of the Board and its consultative groups that discussed this project²

IASB meeting

Date	Topic
June 2015	<ul style="list-style-type: none"> • Performance reporting—project considerations • Research project on Performance Reporting—review
April 2016	<ul style="list-style-type: none"> • Primary Financial Statements—comment letter analysis—2015 Agenda Consultation
May 2016	<ul style="list-style-type: none"> • Primary Financial Statements—proposed approach to research the project—2015 Agenda Consultation
November 2016	<ul style="list-style-type: none"> • Analysis of financial statements presentation • Use of performance measures • Literature review • Summary of outreach on scope of project • Ten possible approaches presented during outreach
December 2016	<ul style="list-style-type: none"> • Scope of the project—statement(s) of financial performance • Scope of the project—other primary financial statements and segment reporting
March 2017	<ul style="list-style-type: none"> • Earnings before interest and tax (EBIT) • Management operating performance measure • General guidance on classification, aggregation and disaggregation
June 2017	<ul style="list-style-type: none"> • Earnings before finance income/expenses and tax (EBIT)—approaches for describing capital structure • Earnings before finance income/expenses and tax (EBIT)—development of principles-based approach • Management performance measure

² All the agenda papers and meeting summaries are available on the project website at <https://www.ifrs.org/projects/work-plan/primary-financial-statements/#project-history>

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Date	Topic
	<ul style="list-style-type: none"> • Adjusted earnings per share (EPS) • Presentation of the share of the profit or loss of associates and joint ventures accounted for using the equity method
September 2017	<ul style="list-style-type: none"> • Structure of the statement(s) of financial performance— introduction of an investing category and additional subtotals • Analysis of expenses by function and by nature
November 2017	<ul style="list-style-type: none"> • Presentation of an investing category in the statement(s) of financial performance • Definition of finance income/expenses • Better ways to communicate other comprehensive income (OCI)
December 2017	<ul style="list-style-type: none"> • Objective of and suitable locations for the management performance measure (MPM) • Overview of the targeted improvements to the statement of cash flows • Classification of interest and dividends in the statement of cash flows • Initial thoughts on other targeted improvements to the statement of cash flows
January 2018	<ul style="list-style-type: none"> • Requirements for management performance measures (MPMs) • Presentation of the share of the profit or loss of ‘integral’ associates and joint ventures
February 2018	<ul style="list-style-type: none"> • Clarifying requirements for management performance measures (MPMs) • Management-defined adjusted earnings per share (EPS) measures • Presentation of the cash flows of ‘integral’ and ‘non-integral’ associates and joint ventures
April 2018	<ul style="list-style-type: none"> • Clarifying requirements for management performance measures (MPMs) • Management-defined adjusted earnings per share (adjusted EPS)
May 2018	<ul style="list-style-type: none"> • Additional proposals on aggregation and disaggregation

Date	Topic
	<ul style="list-style-type: none"> • Staff proposals on analysis of expenses by function or by nature • Outstanding issues on management performance measures (MPMs) and adjusted EPS
June 2018	<ul style="list-style-type: none"> • Preliminary analysis on applying project proposals to financial entities • Preliminary findings on current reporting practice
September 2018	<ul style="list-style-type: none"> • Scope of proposals for subtotals in the statement of profit or loss • Scope of proposals for subtotals in the statement of profit or loss: Illustrations of possible effects of staff proposals on some types of entities • Unusual or infrequent items • Presentation of the results of integral and non-integral associates and joint ventures in the statement(s) of financial performance • Project proposal—moving the project to the standard-setting programme
October 2018	<ul style="list-style-type: none"> • Descriptions of subtotals
November 2018	<ul style="list-style-type: none"> • EBITDA (Earnings before interest, tax, depreciation and amortisation) • Templates or Examples • Minimum line items
December 2018	<ul style="list-style-type: none"> • Presenting management performance measures using columns • EBITDA
February 2019	<ul style="list-style-type: none"> • Classification of income and expenses by financial entities • Outstanding issues on the statement of cash flows • Illustrations for financial entities • Additional proposals on aggregation and disaggregation
March 2019	<ul style="list-style-type: none"> • Additional proposals on minimum line items • Unusual items

Date	Topic
April 2019	<ul style="list-style-type: none"> • Amending proposals for management performance measures (MPMs) • Outstanding issues for financial entities
May 2019	<ul style="list-style-type: none"> • The consultation document — a discussion paper or an exposure draft?
June 2019	<ul style="list-style-type: none"> • Classification of exchange differences and fair value gains and losses on derivatives in the statement(s) of financial performance • Expenses from investments • Income tax effect of MPMs • Differences between MPMs and segment measure of profit or loss • Transition
July 2019	<ul style="list-style-type: none"> • Due process steps and permission to begin the balloting process • Amendments to IAS 34 Interim Financial Reporting • Management performance measures and subtotals similar to gross profit • Management performance measures and adjusted earnings per share • Classification of interest and dividends in the statement cash flows

Joint IASB and FASB meeting

Date	Topic
April 2017	<ul style="list-style-type: none"> • Research agenda—FASB research—disaggregation of performance information • Research agenda—FASB research—structure of the performance statement
June 2018	<ul style="list-style-type: none"> • Project overview • Project summary • Financial Performance Reporting (FPR): Disaggregation of Performance Information

Date	Topic
	<ul style="list-style-type: none"> • Financial Performance Reporting: Disaggregation
July 2019 (planned)	<ul style="list-style-type: none"> • Project update meeting planned during July Board meeting

ASAF meeting

Date	Topic
July 2016	<ul style="list-style-type: none"> • Project scope • Comment letter analysis—feedback received from the agenda consultation process • Proposed approach to research the project • Improving the statement of cash flows
March 2017	<ul style="list-style-type: none"> • Project scope and possible approaches
July 2017	<ul style="list-style-type: none"> • Earnings before finance income/expenses and tax (EBIT)—approaches for describing capital structure • Earnings before finance income/expenses and tax (EBIT)—development of principles-based approach • Management performance measure • Adjusted earnings per share (EPS) • Presentation of the share of the profit or loss of associates and joint ventures accounted for using the equity method
September 2017	<ul style="list-style-type: none"> • A New Zealand user-needs survey • Feedback on the FRC Discussion Paper <i>Improving the Statement of Cash Flows</i>
December 2017	<ul style="list-style-type: none"> • Presentation of an investing category in the statement(s) of financial performance • Definition of finance income/expenses • Better ways to communicate other comprehensive income (OCI)
April 2018	<ul style="list-style-type: none"> • Approach for financial entities • Guidance on aggregation and disaggregation

Date	Topic
July 2018	<ul style="list-style-type: none"> • Moving from the research agenda to Standard-setting
December 2018	<ul style="list-style-type: none"> • Presentation—expected effects of the Board’s tentative decisions
July 2019 (planned)	<ul style="list-style-type: none"> • Meeting planned to discuss structure of the Exposure Draft and communication plan

Joint CMAC and GPF meeting

Date	Topic
June 2016	<ul style="list-style-type: none"> • Improving the statement of cash flows • Issues in current financial reporting
June 2017	<ul style="list-style-type: none"> • Comparability and flexibility in performance reporting
June 2018	<ul style="list-style-type: none"> • EBITDA and unusual or infrequently occurring items • Improving the usefulness of disaggregation in the financial statements
June 2019	<ul style="list-style-type: none"> • Discussion on development of illustrative examples

CMAC meeting

Date	Topic
February 2016	<ul style="list-style-type: none"> • Operating profit
November 2016	<ul style="list-style-type: none"> • Summary of staff research
March 2017	<ul style="list-style-type: none"> • Consumption of financial information by users
October 2017	<ul style="list-style-type: none"> • Project update • Financial institutions and performance reporting
March 2018	<ul style="list-style-type: none"> • Requirements for management performance measures (MPMs) • Presentation of the share of profit or loss of associates and joint ventures

Date	Topic
November 2018	<ul style="list-style-type: none"> Updated overview of the project

GPF meeting

Date	Topic
March 2018	<ul style="list-style-type: none"> Requirements for management performance measures and adjusted EPS Presentation of the share of profit or loss of associates and joint ventures
November 2018	<ul style="list-style-type: none"> Updated overview of the project

World Standard-setters meeting

Date	Topic
September 2016	<ul style="list-style-type: none"> Case study — defining operating profit
October 2018	<ul style="list-style-type: none"> Better Communication—Part B Primary Financial Statements, project overview
October 2019	<ul style="list-style-type: none"> Meeting planned

IFRS Advisory Council meeting

Date	Topic
November 2016	<ul style="list-style-type: none"> Project scope³
September 2018	<ul style="list-style-type: none"> Moving from the research agenda to standard-setting

IFRS Taxonomy Consultative Group meeting

Date	Topic
October 2016	<ul style="list-style-type: none"> Principle-based reporting and technology

³ Progress updates provided to the Advisory Council are discussed in paragraph 12

Date	Topic
April 2018	<ul style="list-style-type: none"><li data-bbox="523 297 954 331">• Better communication update
June 2019	<ul style="list-style-type: none"><li data-bbox="523 367 1313 443">• Benefits of project for electronic reporting and modelling of management performance measures

Appendix C — Summary analysis of expected effects of the project proposals

- C1. In developing the project proposals, the Board has considered their possible effects. This appendix provides a preliminary summary of the likely effects. A more detailed analysis of the effects will accompany the Exposure Draft.

What is the problem the project is addressing?

- C2. IAS 1 *Presentation of Financial Statements* requires entities to present profit or loss, but no other subtotals, in the statement(s) of financial performance. This has led to diversity in the presentation, definition and labelling of subtotals. This diversity makes it difficult for users of the financial statements to understand the information provided and compare information across entities. Comparability is very important to users, in particular buy-side analysts who typically analyse many entities across different sectors rather than focus on a few entities which they are familiar with.
- C3. Users of the financial statements have told us that management-defined performance measures (alternative performance measures) can provide useful information. However, because there is limited guidance on the inclusion of these measures in the financial statements, information about management-defined performance measures, including how and why they are calculated is difficult to find and understand. In addition, because information about these measures is often presented outside the financial statements, the information is typically not audited.
- C4. IFRS Standards give entities the options for presentation of some expenses and cash flows as well as the options for the starting point for the indirect reconciliation of operating cash flows. This also makes it difficult for users of the financial statements to compare financial information across entities. In addition, guidance on the disaggregation of financial information is sometimes not understood or applied well in practice. This can make it difficult for users to find and understand relevant information.
- C5. The project focuses on making targeted improvements to the primary financial statements, particularly the statement(s) of financial performance. The key areas in the project scope are:

- (a) introduction of additional required subtotals in the statement(s) of financial performance;
- (b) introduction of disclosures about non-IFRS defined management performance measures;
- (c) new guidance on disaggregation of information in the financial statements (including disaggregation principles, disaggregation of operating expenses either by nature or by function in the statement(s) of financial performance, guidance on disaggregation of large ‘other balances’ and a requirement to disaggregate information about unusual items); and
- (d) limited changes to the statement of cash flows to improve consistency of classifications by removing options.

C6. The following paragraphs set out the main expected effects of the proposals.

What are the main changes expected to the financial statements?

C7. The Board’s proposals will result in changes to:

- (a) the presentation of subtotals in the statement(s) of financial performance (paragraph C8);
- (b) the presentation of information about associates and joint ventures (paragraphs C9–C10);
- (c) the way that information is disaggregated in the financial statements (paragraphs C11–C16);
- (d) the presentation of information in the statement of cash flows (paragraphs C17–C18); and
- (e) the information provided about management-defined performance measures (paragraphs C19–C21).

Presentation of subtotals

C8. All entities will present an ‘operating profit’ subtotal and most entities will also present a ‘profit before financing and income tax’ subtotal. These will be new subtotals for some entities. Many of those that currently present such subtotals are

likely to need to change what is included in the subtotals to align them with the Board's definitions.

Presentation of information about associates and joint ventures

- C9. Entities that have investments in associates or joint ventures will be required to classify their investments as integral or non-integral to their main business activities. Entities with material integral associates or joint ventures will be required to present an 'operating profit and share of profit of integral associates and joint ventures' subtotal. Entities will also separately present investments in, and cash flows from, integral and non-integral associates and joint ventures in the statement of financial position and statement of cash flows, respectively.
- C10. These changes are likely to have the biggest effect on entities in industries and jurisdictions where operations through joint ventures and cross-holdings are common.

Disaggregation of information

- C11. All entities will be required to analyse their expenses either by nature or by function in the statement(s) of financial performance, depending on which method provides the most useful information to users of the financial statements. This will lead to changes in the way that some entities present their operating expenses, including changes to the line items presented.
- C12. All entities will be required to analyse total operating expenses by nature, either in the statement(s) of financial performance or in the notes, which will be a change in practice for some.
- C13. Most entities will need to change some of the line items presented in the statement(s) of financial performance, either because of the introduction of new minimum line items or through the application of new disaggregation guidance.
- C14. All entities will be required to identify unusual items of income and expenses and disclose additional information about these items. This will be a change in practice for many. For some entities this will mean a change in items that they currently describe as non-recurring or unusual.

- C15. In applying the guidance on disaggregation, some entities will provide additional disaggregation of groups of items in the financial statements, in particular groups of items currently labelled as ‘other’.
- C16. All entities that have material goodwill balances will separately present goodwill in the statement of financial position. This will be a change of practice for some.

Presentation of the statement of cash flows

- C17. The Board is proposing limited changes to the statement of cash flows. However, all entities that present operating cash flows using the indirect method will start the indirect reconciliation of operating cash flows from the ‘operating profit’ subtotal which will be a change in practice for many.
- C18. Many non-financial entities will change the sections in the statement of cash flows in which they include cash flows from dividends received and interest received and paid. However, we expect the classification of these items by financial entities to remain the same. We expect very little change in classification of dividends paid.

Information about management-defined performance measures

- C19. Entities that communicate using management-defined performance measures will be required to include these measures in the notes to the financial statements along with accompanying disclosures. This will be a change in practice for many (although many entities include such measures in communications outside the financial statements today).
- C20. Entities that communicate using management-defined performance measures will also need to reconcile these measures to the most directly comparable IFRS-defined subtotal. These reconciliations are already required by regulators in some jurisdictions although they are often provided outside the financial statements. The reconciliation will also include information on the income tax effect and effect on non-controlling interests (NCI effect) of the reconciling items which entities generally do not provide today.
- C21. Entities will not be able to present management defined performance measures using columns in the statement(s) of financial performance which will be a change for some—particularly in jurisdictions where the use of columns is common. In addition,

the proposals on subtotals and disaggregation will prevent entities from presenting some management-defined performance measures in the statement(s) of financial performance. This may be a change for some entities.

What are the expected benefits to users of financial statements?

C22. This project aims to help users of the financial statements make better decisions by making improvements to the structure and content of the primary financial statements, with a focus on the statement(s) of financial performance. In particular, the project aims to:

- (a) provide more relevant information about financial performance;
- (b) enhance comparability across entities;
- (c) improve disaggregation of financial information; and
- (d) improve transparency of management-defined performance measures.

C23. The project is expected to bring a number of benefits to users of the financial statements, who are expected, as a result of the project, to spend less time searching for and comparing different aspects of entities' performance. The main benefits include:

- (a) providing users with additional relevant information about an entity's performance, including:
 - (i) performance of the entity's main business activities, represented by the operating profit subtotal;
 - (ii) performance of the entity before the effect of financing decisions, represented by the profit before financing and tax subtotal;
 - (iii) the investing category will enable users to analyse income and expenses from investments independently from the entity's main business activities;
 - (iv) information about the performance of investments accounted for using the equity method—reporting those investments that are integral to the entity's main business activities separately from those that are not;

- (v) information about unusual income and expenses helping users assess persistence of the entity's earnings and assess expected future cash flows; and
 - (vi) improved disaggregation including disaggregation of total operating expenses by nature, disaggregation of large 'other' balances as well as better general disaggregation of material items.
- (b) enabling users to compare relevant information—including the information described in (a)—between entities and between periods by:
- (i) defining three new subtotals;
 - (ii) defining 'unusual items';
 - (iii) removing options for classification of cash flows from interest and dividends; and
 - (iv) requiring a consistent starting point for the indirect reconciliation of operating cash flows.
- (c) introducing transparency and discipline in reporting of management-defined performance measures. This will enable users to analyse and adjust entity-specific information about performance which complements IFRS-defined measures of performance and which is often used in users' analysis. Users will know where to find this information, have more complete information about these measures and have more confidence in their preparation and reporting. In addition, information about the tax and NCI effect of these adjustments will enable users to accept or reject adjustments and calculate their own measure of adjusted earnings per share.

What are the expected costs of application?

- C24. All preparers will have to incur some costs to apply the proposed requirements due to diversity in practice that exists today. Nevertheless, the Board's proposals could be very similar to the current reporting practice for some entities and such entities would have to incur limited costs.
- C25. Costs would arise from, for example:

- (a) classifying income and expenses into the operating, investing and financing categories in the statement(s) of financial performance;
- (b) identifying integral associates and joint ventures;
- (c) identifying unusual items of income and expenses;
- (d) analysing operating expenses by their nature; and
- (e) identifying and providing required disclosures for management performance measures, including disclosure of the tax and NCI effect for adjustments made in arriving at management performance measures.

C26. The feedback received so far suggests that proposals that will be most costly to implement include:

- (a) disclosure of analysis of operating expenses by nature, for entities that present their analysis of expenses by function.
- (b) identifying the tax and NCI effect of management performance measure adjustments. To alleviate the costs, the Board is proposing a simplified approach to calculating the tax effect.
- (c) applying judgement, for example in identifying integral and non-integral associates and joint ventures, and unusual income and expenses — partly because these are new proposed definitions. To facilitate application of judgement, the Board is proposing application guidance for these proposals.

C27. We think most of the costs for preparers relate to initial implementation of the proposals and system and process changes those would require. Some of the proposals will result in ongoing costs, particularly disclosure of unusual items and management performance measures.

C28. We also note that the project proposals affect presentation and disclosure requirements; they do not affect recognition and measurement. Consequently, the proposals are likely to have fewer significant system implications for preparers than projects that affect recognition and measurement.

C29. Users of the financial statements will also have to incur costs as a result of proposals, these are however mostly initial implementation costs required for users to adjust their models and analysis to the new structure of the financial statements. We expect the

proposals to ultimately save costs to users by enabling them to spend less time obtaining the information they need for their analysis.

Overall assessment

- C30. Over the course of its deliberations, the Board has assessed that the benefits of the improvements to financial reporting as a result of proposals in this project will outweigh the costs of applying the proposals. We plan to do additional work on assessing the costs and benefits of the proposals before finalising the Exposure Draft and during the comment period.