

STAFF PAPER

December 2018

IASB[®] Meeting

Project	Primary Financial Statements
Paper topic	Cover note and summary of the Board's tentative decisions
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS[®] Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB *Update*.

Papers for this meeting

1. **Agenda Paper 21A–Presenting management performance measures using columns:** This paper discusses whether management performance measures can be presented using columns in the statement(s) of financial performance.
2. **Agenda Paper 21B–EBITDA:** This paper follows up on November Board meeting and continues the discussion on the use of EBITDA, and whether it should be added to the list of measures that are not considered to be MPMs.

Next steps

3. At future Board meetings, we plan to discuss:
 - a. outstanding issues relating to application of project proposals to financial entities;
 - b. outstanding issues on the statement of cash flows;
 - c. outstanding issues relating to unusual or infrequent items;
 - d. outstanding issues on disaggregation of information; and
 - e. which type of consultative document to publish to obtain feedback on the Board's tentative decisions.

4. The Appendix includes a summary of the Board's tentative decisions to date in the project.

Appendix A: Summary of the Board’s tentative decisions to date in the project

Topic	Staff condensed summary of Board’s tentative decisions
	<i>A full record of the Board’s tentative decisions is available from the December 2016-September 2018 IASB updates.</i>
General	<p>The Board tentatively decided to focus on targeted improvements to the statement(s) of financial performance and to the statement of cash flows.</p> <p>In September 2018, the Board decided to move the project to its standard-setting agenda. The Board will decide at a later stage of the project whether to issue a Discussion Paper or an Exposure Draft as the first due process output of the project.</p>
Statement(s) of financial performance—project scope	<p>The Board tentatively decided to explore the following topics in this project:</p> <ul style="list-style-type: none"> a. requiring additional subtotal(s) in the statement(s) of financial performance; b. removing some of the options for presentation of income and expenses in existing IFRS Standards (eg presentation of net interest cost on the net defined benefit liability); c. providing guidance on use of performance measures, including separate presentation of non-recurring, unusual or infrequently occurring items; and d. better ways to communicate information about other comprehensive income (OCI). <p>The Board tentatively decided to prioritise introducing into the statement(s) of financial performance subtotals that facilitate comparisons between entities, such as profit before financing activities, over introducing a management-performance measure subtotal.</p> <p>The Board tentatively decided not to require presentation of EBITDA in the statement(s) of financial performance, and not to require its disclosure in the notes.</p>
Statement(s) of financial performance—financing activities	<p>The Board agreed (by consensus) to explore:</p> <ul style="list-style-type: none"> a. requiring the presentation of an EBIT-type subtotal in the statement(s) of financial performance; and b. describing the subtotal as profit before financing and income tax. <p>The Board tentatively decided that the category below this subtotal should consist of the following separate line items in the statement(s) of financial performance:</p> <ul style="list-style-type: none"> a. ‘interest income from cash and cash equivalents calculated using the effective interest method’; b. ‘other income from cash, cash equivalents and financing activities’; and c. ‘expenses from financing activities’ <p>‘Cash and cash equivalents’ is used in the definition of ‘finance income/expenses’ as a proxy for cash and temporary investments of excess cash. The Board also noted that a separate line item for impairment of cash and cash equivalents may be needed, if material.</p>

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	<p>The Board tentatively decided to clarify the description of 'financing activities' in IAS 7 <i>Statement of Cash Flows</i> by indicating that a financing activity involves:</p> <ul style="list-style-type: none"> a. the receipt or use of a resource from a provider of finance (or provision of credit). b. the expectation that the resource will be returned to the provider of finance. c. the expectation that the provider of finance will be appropriately compensated through the payment of a finance charge. The finance charge is dependent on both the amount of the credit and its duration. <p>The Board tentatively decided that 'interest' income/expenses on liabilities that do not arise from financing activities (unwinding of a discount) should also be in this category, even though they do not meet the proposed definition of expenses from financing activities.</p>
Statement(s) of financial performance—investing category and operating profit	<p>The Board agreed (by consensus) to explore the introduction of an investing category into the statement(s) of financial performance.</p> <p>The Board tentatively decided:</p> <ul style="list-style-type: none"> a. to relabel the 'investing' category as 'income/expenses from investments'. b. to define 'income/expenses from investments' using a principle-based approach as 'income/expenses from assets that generate a return individually and largely independently of other resources held by the entity'. c. to provide a list of some items that would typically be treated as 'investing' and a list of some items that would typically not be treated as 'investing'. <p>The Board tentatively decided that:</p> <ul style="list-style-type: none"> a. entities should be required to present the results of 'integral' associates and joint ventures separately from those of 'non-integral' associates and joint ventures. b. the project's first due-process document should: <ul style="list-style-type: none"> i. use the Board's proposed definition of 'income/expenses from investments' as the basis for the split between integral and non-integral investments in associates or joint ventures, and include a non-exhaustive list of indicators that could be used in making this distinction. ii. propose the presentation in the statement(s) of financial performance of the share of profit or loss of integral associates or joint ventures as a line item above the 'income/expenses from investments' category iii. describe subtotal above share of profit or loss of integral associates and joint ventures as operating profit iv. describe the subtotal that includes share of profit or loss of integral associates and joint ventures and operating profit and share of profit or loss from integral associates and joint ventures v. discuss all of the alternative approaches considered by the Board for presenting the share of the profit or loss of integral associates and joint ventures, both within and outside the 'income/expenses from investments' category, and the Board's reasons for rejecting those approaches. <p>The Board suggested that—subject to drafting improvements—the following indicators should be included to help preparers decide whether an associate or joint venture is 'integral':</p> <ul style="list-style-type: none"> a. the existence of integrated lines of business across the entity and the associate or joint venture that lead to dependency on the associate or joint venture;

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	<ul style="list-style-type: none"> b. the associate or joint venture's critical supplier or customer status; c. the reporting entity and the associate's or joint venture's sharing of a name or brand; and d. the sharing of capital or borrowing sources, such that the financing for the entity and the associate or joint venture is interrelated. <p>In addition, the Board tentatively decided to:</p> <ul style="list-style-type: none"> a. state that the proposed list of indicators should not be prioritised in any way. b. state that the classification of an associate or joint venture as integral or non-integral shall be changed only if the relationship between the reporting entity and the associate or joint venture changes. c. amend the disclosure requirements of IFRS 12 <i>Disclosure of Interests in Other Entities</i> to reflect the introduction of the integral and non-integral categorisation of associates and joint ventures by requiring: <ul style="list-style-type: none"> i. the disclosure in paragraph 20 to be split between 'integral' and 'non-integral' associates and joint ventures; ii. additional disclosure of the factors considered when determining whether associates and joint ventures are 'integral' or 'non-integral'; and iii. additional disclosure where an equity accounted investment has been reclassified in the period, to indicate how its relationship with the reporting entity has changed.
Scope of subtotals	<p>The Board tentatively decided to define the scope of the three proposed subtotals:</p> <ul style="list-style-type: none"> a. profit before financing and income tax. b. operating profit and share of profit or loss from integral associates and joint ventures. c. operating profit. <p>For the 'profit before financing and income tax' subtotal, the Board tentatively decided in principle that:</p> <ul style="list-style-type: none"> a. entities are not required to present a 'profit before finance income/expenses and income tax' subtotal if their main business activity is to provide financing to customers and if they separately present financing income. b. entities that do not present a 'profit before finance income/expenses and income tax' subtotal shall include in the 'operating profit' subtotal: <ul style="list-style-type: none"> i. interest income on cash and cash equivalents calculated using the effective interest method; ii. other income from cash and cash equivalents and financing activities; and iii. expenses from financing activities.

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	<p>c. entities with insurance finance income or expenses should include it in the 'operating profit' subtotal. (Applying the proposals in the section on the scope of the Board's proposal for a 'profit before income/expenses from investments, finance income/expenses and income tax' subtotal, related investment income and expenses would also be included in that subtotal.)</p> <p>For the 'operating profit and share of profit or loss from integral associates and joint ventures' subtotal, the Board tentatively decided in principle that:</p> <ul style="list-style-type: none"> a. entities are not required to present the subtotal if, in the course of their main business activity, they invest in assets that generate a return individually and largely independently from other resources held by the entity. b. entities that do not present the subtotal shall include income/expenses from investments made in the course of their main business activity within the 'operating profit' subtotal and below that subtotal present all other income/expenses from investments. <p>The Board tentatively decided in principle that entities whose main business activities comprise investing and providing financing to customers are:</p> <ul style="list-style-type: none"> a. not required to present a 'profit before financing and income tax' subtotal and shall include, within the 'operating profit' subtotal, the following line items: <ul style="list-style-type: none"> i. interest income on cash and cash equivalents calculated using the effective interest method; ii. other income from cash and cash equivalents and financing activities; and iii. expenses from financing activities. b. not required to present a 'operating profit and share of profit or loss from integral associates and joint ventures' subtotal and shall include income/expenses from investments made in the course of their investing business activity within the 'operating profit' subtotal and below that subtotal, present all other income/expenses from investments. <p>The Board tentatively decided that all entities are required to separately present the share of profit or loss from integral and non-integral associates and joint ventures below the 'operating profit' subtotal.</p>

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Statement(s) of financial performance—other comprehensive income (OCI)	<p>The Board tentatively decided to rename the two categories in the OCI section of the statement(s) of financial performance as follows:</p> <ul style="list-style-type: none"> a. ‘remeasurements reported outside profit or loss’ (currently ‘OCI items that will not be reclassified subsequently to profit or loss’); and b. ‘income and expenses to be included in profit or loss in the future’ (currently ‘OCI items that will be reclassified subsequently to profit or loss’) <p>but not to introduce a new subtotal between these two categories called ‘income after remeasurements reported outside profit or loss’.</p> <p>The Board tentatively decided:</p> <ul style="list-style-type: none"> a. the staff should explore whether there is demand to remove the following presentation options in <i>IAS 1 Presentation of Financial Statements</i> for OCI: <ul style="list-style-type: none"> i. presenting items of OCI either net of related tax effects, or before related tax effects (paragraph 91 of IAS 1); and ii. presenting reclassification adjustments in the statement(s) of financial performance or in the notes (paragraph 94 of IAS 1). b. not to develop separate guidance or educational material on the presentation of OCI for entities, but to consider both profit or loss and OCI when developing proposals for better aggregation/disaggregation and additional minimum line items. c. not to develop educational material for investors in the form of case studies that illustrate why it is important for users of financial statements to consider items of OCI in their analysis of companies.
Management performance measure(s)	<p>The Board tentatively decided:</p> <ul style="list-style-type: none"> a. all entities shall identify a measure (or measures) of profit or comprehensive income that, in the view of management, communicates to users the financial performance of the entity. This measure will: <ul style="list-style-type: none"> i. often only be a subtotal or total specified by paragraph 81A of IAS 1. ii. sometimes be identified by management as a measure that is not a subtotal or total specified by paragraph 81A of IAS 1, but would complement those subtotals or totals. Such a measure is a management performance measure. b. the following requirements apply to management performance measures described in paragraph a(ii): <ul style="list-style-type: none"> i. a reconciliation would be provided in the notes between that measure and the most directly comparable subtotal or total specified by paragraph 81A of IAS 1; ii. that there should be no specific constraints on management performance measures; iii. the measure would be labelled in a clear and understandable way so as not to mislead users; and iv. the following information is required to be disclosed: <ol style="list-style-type: none"> 1. a statement that the measure provides management’s view of the entity’s financial performance and is not necessarily comparable with measures provided by other entities; 2. a description of why the management performance measure provides management’s view of performance, including an explanation of <ul style="list-style-type: none"> • how the management performance measure has been calculated and why; and • how the measure provides useful information about an entity’s financial performance 3. sufficient explanation, if there is a change in how the management performance measure is calculated during the year, to help users understand the reasons for and effect of the change.

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	<p>c. that the reconciliation between the management performance measure and the most directly comparable subtotal or total specified by paragraph 81A of IAS 1 should be provided separately from the operating segment information disclosed in accordance with IFRS 8 <i>Operating Segments</i>. However, entities would not be prohibited from also including management performance measures within the operating segment information. Furthermore, the following information would be required to be disclosed:</p> <ul style="list-style-type: none"> i. an explanation of how the management performance measure differs from the total of the measures of profit or loss for the reportable segments; and ii. if none of the management performance measures fits into the operating segment information, an explanation of why this is the case. <p>For the purposes of these proposals, paragraph 81A of IAS 1 would include the existing subtotals in that paragraph, the proposed new required subtotals developed as part of this project, for example, profit before investing, financing and tax. The Board tentatively decided to expand the list of subtotals and totals that would not be considered management performance measures to include the following commonly used subtotals: profit before tax, profit from continuing operations, and gross profit, defined as revenue less cost of sales. The Board members advised caution in drafting to clearly distinguish these three commonly used subtotals from those that are specifically required to be presented by all entities in paragraph 81A of IAS 1.</p> <p>The Board also asked the staff to clarify in drafting that management performance measures provide additional information that complements the subtotals and totals specified by paragraph 81A of IAS 1, rather than provides a better view of financial performance.</p> <p>The above tentative decisions describe disclosure requirements for management performance measures in the notes only. Consequently, it does not affect the presentation of additional subtotals in the statement(s) of financial performance in accordance with paragraphs 85–85A of IAS 1.</p> <p>The Board tentatively decided to require the reconciliation described in paragraph b(i) to be disclosed in the notes rather than be provided below the statement(s) of financial performance.</p>
Adjusted earnings per share (EPS)	<p>The Board tentatively decided that, if an entity identifies a management performance measure,</p> <ul style="list-style-type: none"> a. it will be required to disclose in the notes the effect of tax and non-controlling interests separately for each of the differences between the management performance measure and the most directly comparable subtotal or total in paragraph 81A in IAS 1. b. it will not be required to disclose in the notes adjusted EPS calculated consistently with the management performance measure. <p>The Board also tentatively decided that</p> <ul style="list-style-type: none"> a. an entity would continue to be permitted to disclose adjusted EPS. b. an entity would be prohibited from presenting adjusted EPS in the statement(s) of financial performance.
Statement of cash flows—project scope	<p>The Board tentatively decided to explore the following topics in this project:</p> <ul style="list-style-type: none"> a. elimination of options for the classification of the cash effects of interest and dividends in the statement of cash flows; b. alignment of the operating section across the statement of cash flows and the statement(s) of financial performance; and c. requiring a consistent starting point for the indirect reconciliation of cash flows.

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Statement of cash flows—general	<p>The Board tentatively decided to:</p> <ul style="list-style-type: none"> a. remove from IAS 7 options for the classification of interest and dividends paid and of interest and dividends received and prescribe a single classification for each of these items. b. clarify that: <ul style="list-style-type: none"> i. cash flows arising from interest incurred on financing activities should be classified as financing cash flows. ii. cash flows arising from interest paid that is capitalised as part of the cost of an asset should be classified as financing cash flows. iii. cash flows arising from dividends paid should be classified as financing cash flows. c. amend the definition of 'investing activities' in IAS 7 to clarify that interest and dividends received should be classified as investing cash flows. <p>The Board tentatively decided:</p> <ul style="list-style-type: none"> a. to require a consistent subtotal as the starting point for the indirect reconciliation of cash flows from operating activities. b. not to align the operating section of the statement of cash flows with a corresponding section in the statement(s) of financial performance. c. not to make other further improvements to the statement of cash flows, besides those mentioned above.
Statement of cash flows—associates and joint ventures	<p>The Board tentatively decided to propose:</p> <ul style="list-style-type: none"> a. separate presentation of (i) the investing cash flows that arise between an entity and its 'integral' associates and joint ventures and (ii) the investing cash flows that arise between an entity and its 'non-integral' associates and joint ventures. The split between 'integral' and 'non-integral' associates and joint ventures would be the same for the statement of cash flows as for the statement(s) of financial performance. b. the separate presentation of the investing cash flows of 'integral' and 'non-integral' associates and joint ventures should be within the 'investing activities' section of the statement of cash flows.
Other topics—project scope	<p>The Board tentatively decided to explore the following topics:</p> <ul style="list-style-type: none"> a. development of templates for the statement(s) of financial performance, the statement of cash flows and the statement of financial position for a small number of industries. b. development of a principle for aggregating and disaggregating items in the primary financial statements. <p>The Board tentatively decided not to consider targeted improvements to the statement of financial position unless work on other areas of the primary financial statements identifies possible improvements to that statement.</p> <p>Additionally, the Board tentatively decided that segment reporting and the presentation of discontinued operations should not be part of the scope of the project.</p>
Templates or examples	<p>The Board tentatively decided:</p> <ul style="list-style-type: none"> a. to develop non-mandatory examples to illustrate the Board's decisions regarding this project. b. to develop illustrative examples of: <ul style="list-style-type: none"> i. the statement(s) of financial performance for different types of entities; ii. the statement of cash flows for a financial entity and a non-financial entity based on the current illustrative examples in IAS 1; and

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	<ul style="list-style-type: none"> iii. any notes that are introduced or amended by the project. c. to include illustrative examples for the statement(s) of financial performance for the following types of entity: <ul style="list-style-type: none"> i. a non-financial entity (both by function and by nature); ii. an investment property company; iii. an insurer; iv. a traditional bank with no material investing activities; v. a bank engaged in both investing and customer financing activities; vi. a bank-insurer; vii. a manufacturer that conducts investing activities; and viii. a manufacturer that provides financing to customers. <p>The Board noted that this list of entity types may need to be revised following further discussion of the application of the Board's tentative decisions to financial entities.</p>
Principles of aggregation and disaggregation	<p>The Board tentatively decided to develop:</p> <ul style="list-style-type: none"> a. principles for aggregation and disaggregation in the financial statements; b. definitions of the notions 'classification', 'aggregation' and 'disaggregation'; and c. guidance on the steps involved in applying 'classification', 'aggregation' and 'disaggregation' when preparing financial statements. d. guidance on disaggregation by nature and by function in the statement of financial performance <p>The Board tentatively decided to include a principle for determining the location of financial information in the primary financial statements or the notes that is based on the role of the primary financial statements and the role of the notes suggested in Discussion Paper Disclosure Initiative—Principles of Disclosure. That principle would not override the specific requirements of IAS 1 for the presentation of minimum line items and subtotals in the primary financial statements. An entity should also apply that principle when a Standard allows entities to determine whether to provide financial information in the primary financial statements or in the notes.</p> <p>The Board discussed whether to introduce numerical thresholds or rebuttable presumptions for aggregating or disaggregating financial information but decided not to introduce such thresholds. Instead, the Board decided to explore whether principle-based guidance could be developed to encourage further disaggregation of large residual balances or 'other' balances.</p> <p>The Board will explore further ways to improve disaggregation in the financial statements, which may include illustrating how different characteristics could be used to aggregate or disaggregate financial information. The Board clarified that any further guidance developed in this respect would not override specific aggregation or disaggregation requirements in individual IFRS Standards.</p> <p>The Board tentatively decided to:</p> <ul style="list-style-type: none"> a. describe the 'nature of expense' method and the 'function of expense' method used to analyse expenses required by paragraph 99 of IAS 1. b. continue to require an entity to provide an analysis of expenses using the methodology, either by-function or by-nature, that provides the most useful information to users.

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	<ul style="list-style-type: none"> c. describe factors that entities would consider to determine whether a by-function or by-nature methodology provides the most useful information to users. These are: <ul style="list-style-type: none"> i. which method provides the best information about the key components or drivers of profitability; ii. which method most closely matches how management reports internally to the board or key decision makers and the way the business is run; iii. peer industry practice; and iv. whether the allocation of expenses to functions would be so arbitrary that it would not provide a sufficiently faithful representation of the composition of an entity's functions. In such cases, a 'by nature' method should be used. d. provide no requirement for entities that use the 'nature of expense' method to provide additional information using the 'function of expense' method. e. require an entity to: <ul style="list-style-type: none"> i. present its primary analysis of expenses in the statement(s) of financial performance; and ii. when an entity provides primary analysis of expenses using a by-function methodology, require the entity to disclose in a single note additional information on the nature of the expense. This information would be provided at an entity level, not as a breakdown of each functional line presented.
Disaggregation - separate disclosure of unusual or infrequent items	<p>The Board tentatively decided to:</p> <ul style="list-style-type: none"> a. require separate disclosure of information about unusual or infrequent items regardless of whether an entity chooses to disclose a management performance measure. b. require separate disclosure of unusual or infrequent items in the notes to the financial statements and require that those items be attributed to line items in the statement(s) of financial performance. c. develop principle-based guidance to help entities identify unusual or infrequent items.
Minimum line items	<p>The Board tentatively decided:</p> <ul style="list-style-type: none"> a. to clarify that the line items that are required to be presented in the statement(s) of financial performance may need to be presented in more than one section of that statement; b. to remove the requirement in paragraph 82(b) of IAS 1 to present 'finance costs' in the statement(s) of financial performance; and c. to clarify that when line items are required to be presented in the statement(s) of financial performance, that requirement necessitates separate presentation, regardless of the method of analysis of expenses within operating profit.