

STAFF PAPER

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IASB[®] meeting

Project	Primary Financial Statements		
Paper topic	Presenting management performance measures using columns		
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Purpose of this paper

1. This Agenda Paper discusses whether an entity should be permitted to present information about its management performance measures (MPMs) using columns in the statement(s) of financial performance.

Summary of staff recommendation

2. The staff recommend the Board prohibit the use of columns to present information about MPMs in the statement(s) of financial performance.

Structure of the paper

3. The paper is structured as follows:
 - (a) Background and introduction (paragraphs 4–8);
 - (b) Staff analysis (paragraphs 9–26); and
 - (c) Appendix —Requirements of paragraphs 85, 85A and 85B of IAS 1 *Presentation of Financial Statements*.

Background and introduction

Tentative decisions made by the Board

4. At its December 2017 meeting, the Board tentatively decided that an entity should be permitted to present an MPM in the statement(s) of financial performance if it fits in the Board's proposed structure for the statement(s) and satisfies the requirements in paragraphs 85, 85A and 85B of IAS 1 *Presentation of Financial Statements* (Appendix A). In its January 2018 meeting, the Board further tentatively decided that if the MPM identified by management is not a subtotal or total specified by paragraph 81A of IAS 1 (as modified by the Board's tentative decisions in this project), a separate reconciliation should be disclosed in the notes between the MPM and the most directly comparable subtotal or total specified by paragraph 81A of IAS 1.
5. Based on the tentative decisions made by the Board to date, the structure of the statement(s) of financial performance would include the following:
 - (a) a by function or a by nature analysis of expenses within the operating profit section of the statement(s) of financial performance;
 - (b) a subtotal representing operating profit;
 - (c) a subtotal representing operating profit or loss and share of profit from integral associates and joint ventures;
 - (d) a subtotal representing profit before financing and tax;
 - (e) a subtotal presenting profit or loss;
 - (f) a subtotal representing total other comprehensive income; and
 - (g) a total representing comprehensive income for the period.
6. Permitting an entity to present its MPMs in the statement(s) of financial performance only if it meets the conditions described in paragraph 4 significantly restricts the number of MPMs that can be presented in the statement(s) of financial performance. These conditions help to address concerns that our proposals may give too much prominence to measures that are not defined by IFRS Standards and that may be viewed as misleading.

What is the issue?

7. The tentative decision made by the Board in its January 2018 meeting requires entities to disclose in the notes a separate reconciliation between the management performance measure and the most directly comparable IFRS subtotal or total. It is unclear from the Board's tentative decisions whether an entity would be permitted to use columns to present information about its MPMs in the statement(s) of financial performance. This Agenda Paper discusses:
 - (a) whether the Board should place restrictions on the use of columns to present information about MPMs in the statement(s) of financial performance (paragraphs 14–18); and
 - (b) what those restrictions should be, if the Board decides to place constraints on use of columns to present information about MPMs (paragraphs 19–26).
8. This paper does not discuss the use of columns to present information in the statement(s) of financial performance other than information about MPMs.

Staff analysis

The use of columns today

9. Regulators have come to different views on whether columns can be used to present information in the statement(s) of financial performance and, consequently, the use of columns varies by jurisdiction.
10. Some regulators, such as the UK regulator, permit the use of columns to present information in the statement(s) of financial performance. As a result, it is common practice in the UK for entities to present information using columns in the statement(s) of financial performance. Our research has shown that as many as 40% of the FTSE 100 companies use columns to present information in the statement(s) of financial performance.
11. Other regulators, such as the Australian regulator, prohibit the use of columns to present information in the statement(s) of financial performance.

12. There are also regulators that require the use of columns to present some types of additional information. For example, the Italian regulator requires entities to present separately in the statement(s) of financial performance the effects of material related party transactions. Such information is often presented using columns.
13. Our research indicates that, outside the UK, very few entities use columns to present information in the statement(s) of financial performance. The staff analysed the use of columns by the largest 250 companies by market capitalisation that report using IFRS Standards. Excluding UK companies, only 28 companies presented additional columns in its statement(s) of financial performance. Of those 28 companies only five companies used columns to present an amount that could potentially be described as an MPM and two of those companies are dual-listed in the UK.

Should the Board place restrictions on the use of columns to present information about MPMs in the statement(s) of financial performance?

14. As noted in paragraph 6, some stakeholders are concerned that presenting information about MPMs in the statement(s) of financial performance may give too much prominence to measures that are not defined by IFRS Standards and that may be viewed by some as misleading. Other stakeholders are concerned that by introducing MPMs in this project, some entities that do not currently present these measures in the statement(s) of financial performance might do so in the future. We have heard these concerns expressed by several regulators.
15. The conditions, described in paragraph 4, that apply to the presentation of MPMs are intended to help address those concerns. If the Board does not place restrictions on the use of columns to present information about MPMs then entities could potentially circumvent these conditions. For example, unless prohibited from doing so by the Board or regulators, entities could potentially use columns to present MPMs in the statement(s) of financial performance that:
 - (a) are calculated using entity specific accounting policies (for example, using proportional consolidation for joint ventures or using a constant currency basis); or

- (b) move income or expenses between the different sections of the statement of financial performance.
- 16. Consequently, the staff think that the Board should consider placing restrictions on the use of columns to present information about MPMs in the statement(s) of financial performance. Paragraphs 19–26 discuss the form that those restrictions could take.
- 17. We acknowledge that placing restrictions on the use of columns could:
 - (a) represent a significant change in practice for some jurisdictions; and
 - (b) result in a loss of relevant information in the statement(s) of financial performance—some stakeholders believe that the appropriate use of columns can provide relevant information to users of financial statements.
- 18. However:
 - (a) as discussed in paragraphs 9-13 the use of columns to present information in the statement(s) of financial performance is not widespread. Very few entities outside the UK present information in this way; and
 - (b) if restrictions on the use of columns are developed, any information about MPMs that the restrictions prevent being presented in the statement(s) of financial performance could still be provided in the notes. Consequently, there should be no loss of relevant information, although that information may be less prominent than if the use of columns were permitted.

Approaches to restricting the use of columns to present MPMs

- 19. The staff have considered two possible ways in which the Board could restrict the use of columns to present information about MPMs:
 - (a) Approach A: Provide guidance on when columns could be used in the statement(s) of financial performance to present information about MPMs. For example, that guidance could state that a column could be used only if:
 - (i) amounts included in the column are recognised and measured in accordance with IFRS Standards; and
 - (ii) the label used for the column is descriptive and unambiguous.

- (b) Approach B: prohibit the use of columns to present information about MPMs in the statement(s) of financial performance.

Approach A

- 20. Providing guidance on the use of columns would enable the Board to restrict their use to situations in which the Board considers it appropriate to present MPMs in the statement(s) of financial performance. For example, the Board could provide guidance that would prevent entities from using columns to present information using entity specific accounting policies or presenting columns that combine several different adjustments to the IFRS information.
- 21. Providing guidance on the use of columns rather than prohibiting their use may:
 - (a) allow entities that currently use columns to present measures of performance that would be considered MPMs in the statement of financial performance to continue to do so; and
 - (b) avoid any potential loss of relevant information in the statement(s) of financial performance.
- 22. However, guidance on when it would be appropriate to use columns to present information about MPMs in the statement of financial performance may be:
 - (a) difficult and time consuming to develop as Board members may hold different views about what should be permitted;
 - (b) complex for preparers to apply and auditors and regulators to enforce; and
 - (c) confusing for users as some MPMs may be presented using columns in the statement(s) while others may not.
- 23. In addition, providing guidance on the use of columns may encourage greater use of columns in the statement(s) of financial performance. This may not be welcomed by those regulators that currently prohibit the use of columns.

Approach B

- 24. Approach B would prohibit the use of columns to present MPMs in the statement(s) of financial performance. It is straight-forward to apply and would effectively address concerns that the use of columns could give undue prominence to MPMs.

25. In addition, Approach B would reduce the risk of misleading users of financial statements, for example if they made decisions based on MPM presented in columns of the statement of financial performance, without considering related disclosures in the notes.

Staff recommendation

26. Based on the analysis above, the staff think that the use of columns to present MPMs should be prohibited as it better addresses the concerns surrounding the use of columns to present MPMs.

Question

Does the Board agree with the staff recommendation to prohibit the use of columns to present information about MPMs in the statement(s) of financial performance?

**Appendix —Requirements of paragraphs 85, 85A and 85B of IAS 1
*Presentation of Financial Statements***

- 85 An entity shall present additional line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity's financial performance.
- 85A When an entity presents subtotals in accordance with paragraph 85, those subtotals shall:
- (a) be comprised of line items made up of amounts recognised and measured in accordance with IFRS;
 - (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable;
 - (c) be consistent from period to period, in accordance with paragraph 45; and
 - (d) not be displayed with more prominence than the subtotals and totals required in IFRS for the statement(s) presenting profit or loss and other comprehensive income
- 85B An entity shall present the line items in the statement(s) presenting profit or loss and other comprehensive income that reconcile any subtotals presented in accordance with paragraph 85 with the subtotals or totals required in IFRS for such statement(s).