STAFF PAPER

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IASB/FASB Meeting

Project	Primary Financial Statements		
Paper topic	Project overview		

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Purpose of this paper

1. The purpose of this paper is to give an overview of the International Accounting Standards Board's (IASB) *Primary Financial Statements* project. The paper is organised as follows:

    (a) objective and history of the project (paragraphs 2-5);

    (b) scope of the project (paragraphs 6-15);

    (c) IASB's tentative decisions on the project to date (paragraphs 16-44); and

    (d) next steps (paragraph 45);

    (e) Appendix A – Summary of the IASB's tentative decisions to date in the project;

    (f) Appendix B – Illustration of the IASB's tentative decisions on the structure and content of the statement(s) of financial performance;

    (g) Appendix C – Description of the role of the primary financial statements and the notes from the Discussion Paper *Disclosure Initiative: Principles of Disclosure*.

Objective and history of the project

2. The objective of the Primary Financial Statements project is to explore targeted improvements to the primary financial statements[1] with a focus on the statement(s) of financial performance.

3. The project was added to the IASB's research agenda in July 2014 in response to the strong demand from users of financial statements to undertake a project on performance reporting. The project was originally called *Performance Reporting*. However, the IASB observed that, in order to answer questions about the structure and content of the statement(s) of financial performance, it would also need to think about the structure and content of the other primary financial statements. Consequently, in June 2015 the IASB decided to rename the project *Primary Financial Statements*.

4. Feedback received on the IASB's 2015 Agenda Consultation reinforced the view that the Primary Financial Statements project should be a high-priority for the IASB. Users in particular identified the project as important. Respondents to the Agenda Consultation suggested that the project should focus on performance reporting issues. In particular, they suggested that the IASB should:

   (a) define financial performance. However, respondents did not suggest how the IASB might develop this definition;

   (b) analyse the use of alternative performance measures (such as EBIT or EBITDA) and non-IFRS information;

   (c) define and require new subtotals in the statement(s) of financial performance (such as operating income);

   (d) explore ways of achieving better disaggregation of line items on the face of the primary financial statements; and

   (e) develop guidance on:

[1] The primary financial statements are: the statement(s) of financial performance; the statement of financial position; the statement of cash flows; and the statement of changes in equity.

(i) which items of income and expense should be presented in the statement of profit or loss and which in other comprehensive income (OCI); and

(ii) whether and when items previously recognised in OCI should be subsequently recycled from OCI to the statement of profit or loss. [2]

5. Consequently, in May 2016 the IASB instructed the staff to carry out initial research on the scope of a research project on the *Primary Financial Statements*, with a focus on:

(a) the structure of the statement(s) of financial performance, including whether entities should be required to include defined subtotals, for example operating profit, and the use of alternative performance measures;

(b) finding out whether there is any demand for changes in the statement of cash flows and the statement of financial position; and

(c) determining the implications of electronic reporting for the structure and content of the primary financial statements.

Scope of the project

6. From June to October 2016, the staff undertook research and outreach activities in response to the IASB's instruction. The staff gathered evidence about perceived problems with the presentation of the primary financial statements in order to understand stakeholders'—and in particular users'— views on the areas of the primary financial statements that need improvement.

7. In November 2016 the staff presented an overview of its research and outreach activities to the IASB.[3] Some of the major findings on the presentation of financial statements were as follows:

(a) the structure and content of the statement(s) of financial performance varies even among entities in the same industry.

[2] See Agenda Paper 21 from April 2016.

[3] Agenda Papers 21A-21E from November 2016.

(b) users of financial statements would like more comparability in the statement(s) of financial performance and would welcome more defined subtotals and line items in that statement.

(c) users of financial statements would like to see greater disaggregation of information in the primary financial statements and the notes.

(d) alternative performance measures can provide relevant information to users. However, users find that there is often a lack of transparency around how these measures are calculated or why they are presented.

(e) users find presentation alternatives for the statement(s) of financial performance and the statement of cash flows unhelpful as they reduce comparability.

(f) electronic reporting of financial information is facilitated if there are more required line items and subtotals and greater disaggregation of the information provided.

(g) users expressed few concerns about the presentation of the statement of financial position.

8. The research and outreach seemed to indicate that the main area of concern for most users of financial statements was presentation of information in the statement(s) of financial performance. Consequently, at its December 2016 meeting the IASB tentatively decided to focus on targeted improvements, mainly to the presentation of the statement(s) of financial performance, rather than a fundamental revision of the presentation of all the primary financial statements.

9. For the statement(s) of financial performance, the IASB tentatively decided, to explore the following topics:

(a) requiring additional subtotal(s) in the statement(s) of financial performance—earnings before interest and tax (EBIT) and/or operating profit;

(b) removing some of the options for presentation of income and expenses in existing IFRS Standards (for example, presentation of net interest cost on a net defined benefit liability);

(c) providing guidance on the use of performance measures, including separate presentation of non-recurring, unusual or infrequently occurring items.

10. The IASB has tentatively decided not to attempt to positively define an operating profit subtotal. Although many users supported the idea, the IASB's initial research suggested that it would be difficult to reach a consensus on what should be included in operating profit (see also paragraph 24).

11. The IASB tentatively decided not to develop guidance on which items of income or expense should be reported in OCI or when such items should be recycled as it had developed high-level guidance on this topic as part of its *Conceptual Framework*. However, the IASB tentative decided to explore better ways of communicating information about OCI.

12. For the statement of cash flows the IASB tentatively decided to explore the following topics:

(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.

13. The IASB also tentatively decided to consider:

(a) development of templates for the primary financial statements for a small number of industries; and

(b) development of a principle for aggregating and disaggregating items in the primary financial statements.

14. In light of the feedback from users (see paragraph 7(g)), the IASB tentatively decided not to consider targeted improvements to the statement of financial position unless work on other areas of the primary financial statements identified possible improvements to that statement.

15. In addition, the IASB decided not to consider changes to the following as part of this project:

(a) the statement of changes in equity. The IASB has a separate project on Financial Instruments with the Characteristics of Equity which may consider changes to that statement.

(b) segment reporting. The IASB decided not to consider segment reporting as part of this project because it would significantly increase the scope of the project, potentially delaying improvements to the structure and content of the primary financial statements.

(c) the presentation of discontinued operations.

IASB's tentative decisions

16. Appendix A includes a summary of the IASB's tentative decisions to date. The major topics covered include:

(a) EBIT subtotal (paragraphs 19-21);

(b) income/expenses from investments category (paragraphs 22-24);

(c) other comprehensive income (paragraph 25);

(d) management performance measures (paragraphs 26-31);

(e) statement of cash flows (paragraphs 32-33);

(f) principles of aggregation and disaggregation (paragraphs 34-41); and

(g) associates and joint ventures (paragraphs 42-44)

17. Appendix B includes an illustration of how some of the tentative decisions of the IASB could be applied to a statement of profit or loss.

18. In developing these proposals, the IASB has initially focused on the presentation of information in the primary financial statements of non-financial entities. The IASB will consider at a future meeting whether the proposals will provide relevant information about financial entities such as banks.

EBIT subtotal

19. In response to requests from users for more comparable subtotals in the statement(s) of financial performance, the IASB has tentatively decided to require entities to present an EBIT subtotal in the statement(s) of financial performance. The IASB chose the EBIT subtotal because

    (a) it is commonly used by users to analyse the financial performance of an entity independently from how the entity is financed.

    (b) the IASB considered EBIT would be easier to define than operating profit and users told us that it would be unnecessary to define both operating profit and EBIT.

20. EBIT is defined as profit before finance income/expense and tax. In order to maximise the comparability of the EBIT subtotal, the IASB has specified the line items that comprise finance income or expenses. They are:

    (a) interest income from cash and cash equivalents calculated using the effective interest method;

    (b) other income from cash, cash equivalents and financing activities;

    (c) expenses from financing activities;

    (d) other finance income (for example, unwinding of a discount on a defined benefit asset); and

    (e) other finance expenses (unwinding of a discount on liabilities not arising from financing activities).

21. The IASB proposes to describe ‘financing activities’ as involving:

    (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.

Income/expenses from investments category

22. Outreach with users suggested that there are some types of assets that users typically seek to value separately from the main activities of the entity (for example, financial assets, associates and joint ventures, investment properties). In order to provide information about the income and expenses arising from such assets separately from other income and expenses, the IASB decided to require entities to present an income/expenses from investments category in the statement(s) of financial performance. Income/expenses from investments would be presented above the EBIT subtotal.

23. The IASB tentatively decided to:

    (a) 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’.

    (b) 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’.

24. The IASB discussed whether to label the subtotal before the ‘income/expenses from investments’ category as ‘operating profit’—that is defining operating as residual. However, the IASB tentatively decided not to take this approach (see paragraph 10).

Other comprehensive income

25. In order to better communicate information about income or expenses included in OCI, the IASB tentatively decided to rename the two categories in the OCI section of the statement(s) of financial performance as follows:

    (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’).

Management performance measures

26. Users have told us that alternative performance measures can provide them with relevant information. However, they find that there is often a lack of transparency around how these measures are calculated and why they are presented. In addition, because these measures are often only presented outside the financial statements, they are not subject to audit and the quality of the disclosures provided about these measures depends on the requirements of regulators, which vary by jurisdiction.

27. Consequently, the IASB has tentatively decided that all entities should 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. In many cases that measure will only be a subtotal or total specifically required by IFRS Standards (for example, profit or loss). However, when entities identify additional measures that complement the subtotals or a totals specified by IFRS Standards , those measures are 'management performance measures' and are subject to specific disclosure requirements (see Appendix A).

28. The IASB tentatively decided that there should be no specific constraints on what could be identified as a management performance noting that any constraints could prevent management from providing their view of performance.

29. The intention is for management performance measures to be provided in the notes. However it is possible for these measures to be presented in the statement(s) of financial performance if the following conditions are met:

    (a) the measure is relevant to an understanding of the entity's financial performance;

    (b) the measure is comprised of line items made up of amounts recognised and measured in accordance with IFRS Standards; and

(c) the measure fits into the structure of the statement(s) of financial performance (for example, it does not result in a mixture of functional and natural line items).[4]

30. Users of financial statements have said that they would like information to enable them to understand the effect on net profit or loss and earnings per share (EPS) of the adjustments that management make in arriving at their management performance measures. To do this, users need information about the tax and non-controlling interest effects of the adjustments made in arriving at the management performance measure.

31. One way of providing this information would be to require entities to disclose an alternative EPS figure that is calculated consistently with the management performance measure. The IASB discussed this approach but decided instead to require entities to simply disclose information about the tax and non-controlling interest effects of each adjustment.

Statement of cash flows

32. The IASB's tentative decisions on improvements to the statement of cash flows have focused on increasing comparability between entities by removing options in IAS 7 *Statement of Cash Flows*. Consequently, the IASB has tentatively decided to:

    (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:

        (i) cash flows arising from interest paid should be classified as financing cash flows;

        (ii) cash flows arising from dividends paid should be classified as financing cash flows; and

        (iii) cash flows arising from interest and dividends received should be classified as investing cash flows.

[4] Conditions (a) and (b) are from paragraphs 85 and 85A of IAS. IAS 1 also include requirements designed to ensure that any amount presented in the statement(s) of financial performance are provide a faithful representation.

(b) require a consistent subtotal as the starting point for the indirect reconciliation of cash flows from operating activities. This subtotal should be ‘profit before investing, financing and income tax’.

33. Consistent with its decisions not to define ‘operating profit’ (see paragraph 10), the IASB decided not to align the operating section of the statement of cash flows with a corresponding section in the statement(s) of financial performance.

Principles of aggregation and disaggregation

34. In response to users’ requests for greater disaggregation of information, the IASB has tentatively decided to develop:

(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. The IASB is continuing considerations of how to help entities identify which characteristics are most relevant when disaggregating information.

35. The IASB has also tentatively decided to provide more guidance on disaggregation of expenses in the statement(s) of financial performance. The IASB has tentatively decided to:

(a) describe the 'nature of expense' method and the 'function of expense' method used to analyse expenses along the lines of the staff proposals discussed at the September 2017 meeting:

> The **nature of expense method** provides information about expenses arising from the main inputs that are consumed in order to accomplish an entity’s business activities—such as expenses related to materials (raw material purchases), employees (labour and other employee benefits), equipment (depreciation) or intangibles (amortisation)—without reference to how these are allocated to functions within the business.

The **function of expense method** allocates and combines expense items according to the activity from which the item arises.

For example, cost of sales is a functional line item that may combine the following natural line items: raw material costs, labour and other employee benefit costs, depreciation or amortisation. These expenses all arise from the entity's production activities.

(b) 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.

(c) provide the following factors to help entities determine whether a by-function or by-nature methodology provides the most useful information to users:

(i) the method that provides the best information about the key components or drivers of profitability.

(ii) the method that matches most closely how management report internally and the way the business is run.

(iii) peer industry practice.

(iv) whether the allocation of expenses to functions would to so arbitrary that it would not provide a sufficiently faithful representation of the compositions of an entity's functions. In such cases a by nature method should be used.

(d) require an entity to present its primary analysis of expenses (function or nature) in the statement(s) of financial performance.

36. Feedback from users suggests that when an entity presents information by function, users also want information about the nature of the expenses. Consequently, the IASB tentatively decided that entities that provide a functional analysis of expenses should disclose in a single note additional information about the nature of those expenses. The IASB discussed three approaches to providing this additional information:

(a) Approach A: require information by nature to be disaggregated for each functional line presented and allow entities flexibility to decide which natural components should be disclosed separately.

(b) Approach B: require information by nature to be disaggregated for each functional line presented. This approach would specify which natural components should be disclosed separately for specific functional lines.

(c) Approach C: require additional information by nature but do not require this information to be attributed to functional lines (ie require a by-nature analysis of expenses for the entity as a whole in the notes).

The IASB tentatively decided to require Approach C. This approach may alleviate the concerns expressed by preparers that they would be unable to track the original nature of the expenses allocated into an entity's functional activities.

37. The IASB discussed the idea of introducing quantitative thresholds or rebuttable presumptions to promote more disaggregation of financial information—for example, requiring disaggregation of expenses that exceed X% of the total for that line item. Although some IASB members supported this approach, the idea was rejected because a threshold could be seen as undermining the concept of materiality and might be challenging to implement. Instead, the IASB instructed the staff to develop guidance that could be used to encourage greater disaggregation and better labelling of residual or 'other' balances.

38. The IASB has also tentatively decided to provide a principle for determining the location of information in the primary financial statements or the notes. That principle will be based on the description of the roles of the primary financial statements and notes included in the Discussion Paper *Disclosure Initiative: Principles of Disclosure* (see Appendix C).

Associates and joint ventures

39. Our initial research and outreach indicated that there are inconsistencies in the presentation of the results of equity accounted investments (associates and joint ventures). Users have told us that they find these inconsistencies unhelpful. Our research also highlighted that the position in the statement(s) of financial performance

of the results of associates and joint ventures depends, at least in part, on how integral those associates or joint ventures are to the business activities of the entity. Associates and joint ventures that are integral to an entity's business activities are more likely to be presented higher up the statement of financial performance (for example, included in operating results) than those that are less integral.

40. Consequently, the IASB tentatively decided that:

(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. In deciding whether an associate or joint venture is integral or non-integral, entities would be required to consider whether the associate or joint venture generates a return individually and largely independently of other resources held by the entity (ie the same test as is used to identify income and expenses including in the investing category—see paragraph 23(a)).

(b) the share of profit or loss of integral associates or joint ventures should be presented as a line item above the 'income/expenses from investments' category (ie above the 'profit before investing, financing and income tax' subtotal) and immediately after, but not within, the entity's business activities; this presentation would give rise to a new subtotal above the share of profit or loss of integral associates or joint ventures line item.

(c) the share of profit or loss of non-integral associates or joint ventures should be presented as a line item in the 'income/expenses from investments' category.

41. The IASB has also tentatively decided that separate presentation of integral and non-integral associates and joint ventures should also be required in the investing section of the statement of cash flows.

Next steps

42. The following major issues are still outstanding and will be discussed by the IASB in the coming months:

(a) whether the proposals will provide relevant information about financial entities such as banks (see paragraph 18);

(b) whether to develop templates for the primary financial statements for a small number of industries;

(c) whether to require disclosure of information about unusual or infrequently occurring items;

(d) whether to provide guidance on the presentation and definition of EBITDA;

(e) whether to provide further guidance on disaggregation (for example, guidance on the characteristics that might suggest that information should be disaggregated);

(f) whether to publish a Discussion Paper or an Exposure Draft as the first due process document in this project.

Appendix A: Summary of the IASB's tentative decisions to date in the project

Topic	Staff condensed summary of Board's tentative decisions (focus on non-financial entities)
	A full record of the Board's tentative decisions is available from the December 2016-May 2018 IASB updates.
General	The Board tentatively decided to focus on targeted improvements to the statement(s) of financial performance and to the statement of cash flows. 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.
Statement(s) of financial performance—project scope	The Board tentatively decided, to explore the following topics in this project: 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). The Board tentatively decided to prioritise introducing into the statement(s) of financial performance subtotals that facilitate comparisons between entities, such as EBIT, over introducing a management-performance measure subtotal.
Statement(s) of financial performance—EBIT and finance income and expenses	The Board agreed (by consensus) to explore: a. requiring the presentation of an EBIT subtotal in the statement(s) of financial performance; and b. defining EBIT as profit before finance income/expenses and tax. The Board tentatively decided that, if it introduces both an investing category and an EBIT (or profit before financing and income tax) subtotal, finance income or expenses should consist of the following separate line items in the statement(s) of financial performance: a. 'interest income from cash and cash equivalents calculated using the effective interest method'; b. 'other income from cash, cash equivalents and financing activities'; c. 'expenses from financing activities'; d. 'other finance income'; and e. 'other finance expenses'. '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. Other finance income/expenses comprises 'interest' income/expenses on liabilities that do not arise from financing activities (unwinding of a discount),

<table>
<tr><th>Topic</th><th>Staff condensed summary of Board’s tentative decisions (focus on non-financial entities)</th></tr>
<tr><td></td><td>The Board tentatively decided to clarify the description of ‘financing activities’ in IAS 7 Statement of Cash Flows by indicating that a financing activity involves:
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.</td></tr>
<tr><td>Statement(s) of financial performance—investing category</td><td>The Board agreed (by concensus) to explore the introduction of an investing category into the statement(s) of financial performance.

The Board tentatively decided:
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’.
d. not to label the subtotal before the ‘income/expenses from investments’ category as ‘operating profit’.

The Board tentatively decided that:
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:
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 and require a new subtotal above that line item.
iii. 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.</td></tr>
<tr><td>Statement(s) of financial performance—other comprehensive income (OCI)</td><td>The Board tentatively decided to rename the two categories in the OCI section of the statement(s) of financial performance as follows:
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’)

but not to introduce a new subtotal between these two categories called ‘income after remeasurements reported outside profit or loss’.

The Board tentatively decided:
a. the staff should explore whether there is demand to remove the following presentation options in IAS 1 Presentation of Financial Statements for OCI:
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).</td></tr>
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<tr><th>Topic</th><th>Staff condensed summary of Board’s tentative decisions (focus on non-financial entities)</th></tr>
<tr><td></td><td>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.</td></tr>
<tr><td>Management performance measure</td><td>The Board tentatively decided:

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:
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):
i. a reconciliation would be provided in the notes between that measure and the most directly comparable subtotal or total required 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:
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
• 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.
c. that the reconciliation between the management performance measure and the most directly comparable subtotal or total required by paragraph 81A of IAS 1 should be provided separately from the operating segment information disclosed in accordance with IFRS 8 Operating Segments. 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:
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.

For the purposes of these proposals, paragraph 81A of IAS 1 would include the existing subtotals in that paragraph and the proposed new 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.

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.</td></tr>
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<table>
<tr><th>Topic</th><th>Staff condensed summary of Board’s tentative decisions (focus on non-financial entities)</th></tr>
<tr><td></td><td>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.

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.</td></tr>
<tr><td>Adjusted earnings per share (EPS)</td><td>The Board tentatively decided that, if an entity identifies a management performance measure,
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.

The Board also tentatively decided that
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.</td></tr>
<tr><td>Statement of cash flows—project scope</td><td>The Board tentatively decided to explore the following topics in this project:
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.</td></tr>
<tr><td>Statement of cash flows—general</td><td>The Board tentatively decided to:
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:
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.

The Board tentatively decided:
a. to require a consistent subtotal as the starting point for the indirect reconciliation of cash flows from operating activities. This subtotal should be ‘profit before investing, financing and income tax’.
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.</td></tr>
<tr><td>Statement of cash flows—</td><td>The Board tentatively decided to propose:</td></tr>
</table>

Topic	Staff condensed summary of Board's tentative decisions (focus on non-financial entities)
associates and joint ventures	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	The Board tentatively decided to explore the following topics: a. development of principle for aggregating and disaggregating items in the financial statements. b. 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. 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. Additionally, the Board tentatively decided that segment reporting and the presentation of discontinued operations should not be part of the scope of the project.
Principles of aggregation and disaggregation	The Board tentatively decided to develop: 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 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. 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. 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. The Board also tentatively decided to: 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.

Topic	Staff condensed summary of Board's tentative decisions (focus on non-financial entities)
	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: a. which method provides the best information about the key components or drivers of profitability; b. which method most closely matches how management reports internally to the board or key decision makers and the way the business is run; c. peer industry practice; and d. 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: 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.

Appendix B: Illustration of the IASB's tentative decisions on the structure and content of the statement(s) of financial performance

Statement of Financial Performance (by function)	
Revenue	X
Cost of sales	X
Gross profit	X
SG&A expense	X
Profit from consolidated entities (or business profit)*	X
Share of profit of associates and joint ventures integral to operations	X
Profit before investments, financing and income tax*	X
Income/expenses from investments	
Share of profit of other associates and joint ventures	X
Change in fair value of investment property	X
Dividends received on equity investments	X
Interest income on long-term debt investments	X
Rental income	X
Profit before financing and income tax (or EBIT)*	X
Interest income from cash and cash equivalents calculated using the effective interest method	X
Other income from cash and cash equivalents and financing activities	X
Expenses from financing activities	X
Net interest cost on net defined benefit liability	X
Profit before tax	X
Income tax expense	X
Profit for the period from continuing operations	X
Loss from discontinued operations	X
Profit for the period	X

*- proposed required subtotals in the Statement(s) of Financial Performance

Appendix C: Description of the role of the primary financial statements and the notes from the Discussion Paper Disclosure Initiative: Principles of Disclosure

C1. Paragraphs 3.22 and 3.28 in Section 3 of the Discussion Paper Disclosure Initiative—Principles of Disclosure) included descriptions of the roles of the primary financial statements and the notes. The feedback received on the Discussion Paper was broadly supportive of the proposed descriptions of the roles of the primary financial statements and of the notes because those roles would help preparers and users of the financial statements identify the boundaries between the primary financial statements and the notes. The roles were described as follows:

> (a) the role of the primary financial statements is to provide a structured and comparable summary of an entity's recognised assets, liabilities, equity, income and expenses, which is useful for:
>
> (i) obtaining an overview of the entity's assets, liabilities, equity, income and expenses;
>
> (ii) making comparisons between entities and reporting periods; and
>
> (iii) identifying items or areas within the financial statements about which users of the financial statements will seek additional information in the notes.
>
> (b) the role of the notes is to:
>
> (i) provide further information necessary to disaggregate, reconcile and explain the items recognised in the primary financial statements; and
>
> (ii) supplement the primary financial statements with other information that is necessary to meet the objective of financial statements.

C2. An important implication of considering the roles of the primary financial statements and the notes would be that different levels of aggregation may be needed in different parts of the financial statements, namely:

(a) a higher level of aggregation would be used to summarise information about the entity's assets, liabilities, equity, income and expenses in its primary financial statements in order to fulfil the role of those statements; and

(b) a lower level of aggregation (ie more disaggregation) may be used for the presentation of information about the entity's assets, liabilities, equity, income and expenses in the notes to the financial statements.