



# Financial entities

## Preliminary findings on current reporting practice

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- The staff have been analysing **financial entities' current reporting practice** including:
  - the structure and content of the statement(s) of financial performance
  - common key performance measures.
- The **objective** of this paper is to share some preliminary findings, as background information for the Board's discussion on Agenda Paper 21A.
- The staff have only looked at a **small number of entities** so far, so our preliminary findings **may not be representative** of the whole industry—we will continue our research.
- We would **welcome any comments** on the preliminary findings and how to proceed with our research.

- We have looked at a small sample of the following types of financial entities:

1 Entities with financial and non-financial activities

2 Banks

3 Investment property companies

- For each of these, we have included examples of the structure and content of the statement(s) of financial performance and common key performance measures. These examples may not be representative of the whole industry.

# 1 Entities with financial and non-financial activities

Description of sample	<ul style="list-style-type: none"><li>• Entities that sell products and provide financing to their customers for purchasing those products; and</li><li>• Entities with non-financial activities as well as a banking subsidiary (ie a subsidiary that takes deposits and grants loans).</li></ul>
Structure & content of statement(s) of financial performance	<ul style="list-style-type: none"><li>• We have found a variety of reporting practices, some of which are illustrated on the next slides.</li></ul>
Common key performance measures	<ul style="list-style-type: none"><li>• net profit and adjusted net profit, both at segment and consolidated level.</li><li>• EBIT and adjusted EBIT (or an EBIT-type operating profit), both at segment and consolidated level.<ul style="list-style-type: none"><li>• such EBIT measures usually include interest income and interest expense from financial services.</li><li>• for the financial services segment, such EBIT measures are often (almost) equal to profit before tax.</li></ul></li><li>• net interest margin for entities with a banking subsidiary (for banking segment only)</li></ul>

# 1 Example A—no separate presentation in the statement(s) of financial performance

## Extract from consolidated statement of financial performance

Revenue	X
Cost of sales	(X)
<b>Gross profit</b>	<b>X</b>
Administrative expenses	(X)
Other operating expenses	(X)
<b>Operating profit</b>	<b>X</b>
Finance income	X
Finance expenses	(X)
<b>Profit before tax</b>	<b>X</b>

## Extract from segment reporting\* (notes)

	Segment A	Financial services segment
Revenue	X	X
Cost of sales	(X)	(X)
Gross profit	X	X
Administrative expenses	(X)	(X)
Other operating expenses	(X)	(X)
Operating profit	X	X
Finance income	X	0 or small amounts
Finance expenses	(X)	
Profit before tax	X	X

Includes interest income and expenses from financial services

\*Entities usually do not present all of the line items and subtotals shown here in their segment reporting. Paragraph 8 IFRS 8 *Operating Segments* requires disclosure of a measure of profit or loss and some specific income/expenses, for each reportable segment.

# 1 Example B—segment information included in the statement(s) of financial performance

Extract from consolidated statement(s) of financial performance

	Consolidated	Segment A	Financial services segment
Revenue	X	X	X
Cost of sales	(X)	(X)	(X)
<b>Gross profit</b>	X	X	X
Administrative expenses	(X)	(X)	(X)
Other operating expenses	(X)	(X)	(X)
<b>Operating profit</b>	X	X	X
Finance income	X	X	0 or small amounts
Finance expenses	(X)	(X)	
<b>Profit before tax</b>	X	X	X

Includes interest income and expenses from financial services

# 1 Example C—separate sections in the statement(s) of financial performance

## Extract from consolidated statement(s) of financial performance

### Non-financial activities:

Revenue from non-financial activities	X
Cost of sales	(X)
Selling, general and administrative expenses	(X)
<b>Operating profit from non-financial activities</b>	<b>X</b>
Finance expenses	(X)
[...]	
<b>Profit from non-financial activities</b>	<b>X</b>

### Financial activities:

Interest income	X
Interest expense	(X)
<b>Net interest income</b>	<b>X</b>
Employee benefits related to financial activities	(X)
[...]	
<b>Operating profit from financial activities</b>	<b>X</b>
[...]	
<b>Profit from financial activities</b>	<b>X</b>
<b>Consolidated profit</b>	<b>X</b>

# 1 Example D—Common under US GAAP (separate line items within revenue and expenses sections)

Extract from consolidated statement(s) of financial performance

## Net sales and revenue:

Sales of products X

Financial services revenue X

Total net sales and revenue X

## Costs and expenses:

Cost of sales (X)

Selling, general and administrative expenses (X)

Financial services expenses (X)

Total costs and expenses (X)

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Operating income X

Other income X

Other expenses (incl. interest expenses unrelated to financial services) (X)

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Profit before tax X

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Includes interest income from financial services

Includes interest expense from financial services

## 2 Banks

Description of sample	<ul style="list-style-type: none"><li>• Entities from GICS industry 401010 Banks</li></ul>
Common key performance measures	<ul style="list-style-type: none"><li>• Net interest income (see slide 11)</li><li>• Operating profit and net profit</li><li>• Adjusted operating profit and adjusted net profit; common adjustments for:<ul style="list-style-type: none"><li>• credit impairment losses (only excluded from adjusted operating profit)</li><li>• goodwill impairment</li><li>• restructuring costs</li><li>• gains/losses on disposals</li><li>• income/expenses classified as unusual/infrequently occurring</li><li>• changes in fair value due to changes in own credit risk*</li></ul></li></ul>

\*previously presented through profit or loss, IFRS 9 *Financial Instruments* requires presentation in OCI

Commonly presented line items	<ul style="list-style-type: none"><li>• Interest income and interest expense</li><li>• Fee and commission income and expenses</li><li>• Gains and losses on financial instruments are disaggregated in different ways. For example by FVOCI and FVPL categories or by activities (eg trading and investing)—see examples on slide 12.</li><li>• Credit impairment losses</li></ul>
Templates	<ul style="list-style-type: none"><li>• Some jurisdictional templates exist for IFRS reporting by banks (eg in France and Brazil)</li><li>• Some templates exist for regulatory reporting by banks (eg FINREP templates in Europe)</li></ul>

## ② Banks—Net interest income

- **Net interest income = interest revenue – interest expense**
- Different approaches to what is included in ‘interest expense’:
  - all include interest from instruments at amortised cost;
  - some include interest component from fair value changes; and
  - a few include interest from liabilities such as pension obligations.
- Some banks include credit impairment losses in calculating net interest income or present the losses next to it; others present them further down the statement(s) of financial performance
- Can be hard to reconcile interest revenue and expense with underlying assets and liabilities—disaggregation by class can be varied and accounting policy vague

## 2 Banks—Examples

### Extract from statement(s) of financial performance— Example A

Interest income	X
Interest expense	(X)
<b>Net interest income</b>	<b>X</b>
Fee and commission income	X
Fee and commission expense	(X)
<b>Net fee and commission income</b>	<b>X</b>
Net trading income	X
Net investment income	X
Credit impairment losses	(X)
<b>Net operating income</b>	<b>X</b>
Employee benefit expenses	(X)
General and administrative expenses	(X)
[other operating expenses]	(X)
<b>Operating expenses</b>	<b>X</b>
Share of profit/loss of associates/JVs	X
<b>Profit before tax</b>	<b>X</b>

### Extract from statement(s) of financial performance— Example B

Interest income	X
Interest expense	(X)
<b>Net interest income</b>	<b>X</b>
Credit impairment losses	(X)
<b>Net interest income after credit impairment losses</b>	<b>X</b>
Net fee and commission income	X
Net gains/losses on financial assets at FVPL	X
Net gains/losses on financial assets at amortised cost	X
Net gains/losses on financial assets at FVOCI	X
Share of profit/loss of associates/JVs	X
<b>Total non-interest income</b>	<b>X</b>
Employee benefit expenses	(X)
General and administrative expenses	(X)
[other operating expenses]	(X)
<b>Profit before tax</b>	<b>X</b>

### 3 Real estate companies

Description of sample	<ul style="list-style-type: none"><li>• Entities from GICS industry 601010 Equity Real Estate Investment Trusts (REITs)</li></ul>
Common key performance measures	<ul style="list-style-type: none"><li>• Net rental income (rental income – direct property expenses)</li><li>• Net profit</li><li>• Adjusted net profit, for example, the <a href="#">European Public Real Estate Association</a> ‘EPRA Earnings’, which is net profit, adjusted for items such as:<ul style="list-style-type: none"><li>• Changes in fair value of investment properties</li><li>• Gains/losses on disposal of investment properties</li><li>• Goodwill impairment</li><li>• Adjustments to the share of profit or loss of joint ventures for the items above</li><li>• Tax and NCI adjustments in respect of the items above</li></ul></li></ul>
Templates	<ul style="list-style-type: none"><li>• Some jurisdictional templates exist for IFRS reporting by real estate companies (eg in Brazil)</li></ul>

### 3 Real estate companies—Example

#### Extract from statement(s) of financial performance

Gross rental income	X
Property operating expenses	(X)
Net rental income	X
Administrative expenses	(X)
Changes in fair value of investment properties	X
Gain/loss on disposal of investment properties	X
Profit from operating activities	X
Finance income	X
Finance expenses	(X)
Profit before tax	X

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