IFRS

STAFF PAPER

February 2019

IASB® meeting

Project	**Primary Financial Statements**		
Paper topic	Classification of income and expenses by financial entities		

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Purpose of this paper

1. At its September 2018 meeting, the Board discussed the scope of the proposals for required subtotals in the statement(s) of financial performance. At that meeting, Board members agreed with the general direction of the staff proposals but made a number of suggestions. This paper analyses most of those suggestions and further refines the proposals.

2. The staff will bring another paper to a future meeting to analyse the remaining suggestions.

3. By financial entities, we mean entities that provide financing to customers as a main business activity and/or invest in the course of their main business activities in assets that generate a return individually and largely independently of other resources held by the entity.

Summary of staff recommendations

4. The staff recommend that the Board reformulates its September 2018 tentative decisions as follows:

   (a) an entity that provides financing to customers as a main business activity is required to include in operating profit either:

(i) expenses from financing activities and income from cash and cash equivalents relating to its financing business activity; or

(ii) all expenses from financing activities and income from cash and cash equivalents.

(b) an entity that, in the course of its main business activities, invests in assets that generate a return individually and largely independently of other resources held by the entity is required to include in operating profit, income (expenses) from investments made in the course of its main business activities.

(c) an entity that provides financing to customers as a main business activity shall not present the 'profit before financing and income tax' subtotal if the entity does not present expenses from financing activities or income from cash and cash equivalents below operating profit. This exception applies even when such an entity presents in the statement(s) of financial performance the unwinding of a discount on liabilities that do not arise from financing activities.

Structure of paper

5. This paper is structured as follows:

(a) Background—Board members' suggestions related to the approach proposed in September 2018 (paragraphs 6–13);

(b) Staff analysis (paragraphs 14–62)

(i) Which income and expenses should be classified in operating profit? (paragraphs 19–23)

(ii) Should there be further exceptions or exemptions? (paragraphs 24–44)

(iii) What does the new classification model for financial entities mean for presentation of subtotals? (paragraphs 45–52)

(iv) How do the proposals in this paper compare with the September 2018 staff proposals? (paragraphs 53–54)

(v) Classification of expenses from financing activities for insurers (paragraphs 55–62)

(c) Appendix A— Tentative Board decisions on subtotals for non-financial entities

(d) Appendix B— Extract from September 2018 IASB *Update*

(e) Appendix C—Comparison of staff proposals in this paper with September 2018 staff proposals

Background—Board members' suggestions related to the approach proposed in September 2018

6. At its September 2018 meeting, the Board discussed how to define the scope of the three subtotals it has tentatively decided to require in the statement(s) of financial performance.[1] The aim was to define the scope in a way that ensures the subtotals are only required when they result in useful information.

7. Table 1 summarises the staff's proposed approach at the September 2018 Board meeting.[2] Board members agreed with the general direction of the staff proposals and with the outcomes illustrated in Agenda Paper 21B for that meeting. However, Board members made several suggestions which are described in paragraphs 8–13.

[1] Appendix A describes the Board's tentative definitions of these subtotals in more detail.

[2] Appendix B includes the September 2018 IASB *Update*.

Table 1—expected effect of the staff proposals discussed at the September 2018 Board meeting[3]

			Classification		Subtotals		
			Income from financing activities & expenses from cash & cash equivalents	Income/ expenses from investments	Operating profit	Operating profit & share of int. ass./JVs	Profit before financing & income tax
	1	General corporates	All below operating profit	All below operating profit	✓	✓	✓
One main activity	2	Entities whose only main business activity is providing financing to customers (eg traditional banks)	All above operating profit **OR** all below operating profit	All below operating profit	✓	✓	✗
One main activity	3	Entities who invest[4] in the course of their only main business activity (eg investment property companies & insurers)	All below operating profit (except insurance finance expense/ income above operating profit)	Split: In course of main business activity above operating profit; rest below **OR** all below operating profit	✓	✗	✓
Multiple main activities	4	Entities whose main business activities only comprise investing[4] and provision of financing to customers (eg universal banks[5])	All above operating profit **OR** all below operating profit	Split: In course of main business activity above operating profit; rest below **OR** all below operating profit	✓	✗	✗
Multiple main activities	5	Entities whose main business activities comprise both a non-financial main business activity and provision of financing to customers	Split: Related to provision of financing to customers above operating profit; rest below **OR** all below operating profit	All below operating profit	✓	✓	✓
Multiple main activities	6	Entities whose main business activities comprise both a non-financial main business activity and investing[4]	All below operating profit	Split: In course of main business activity above operating profit; rest below **OR** all below operating profit	✓	✓	✓
Multiple main activities	7	Entities whose main business activities comprise a non-financial main business activity, provision of financing to customers and investing[4]	Split: Related to provision of financing to customers and investing above operating profit; rest below **OR** all below operating profit	Split: In course of main business activity above operating profit; rest below **OR** all below operating profit	✓	✓	✓

[3] We have updated the labels of the subtotals in this table applying the October 2018 tentative Board decisions (see October 2018 IASB *Update*).

[4] By ‘investing’ we mean ‘investing in assets that generate a return individually and largely independently of other resources held by the entity’.

[5] By a ‘universal bank’ we mean an entity that provides a wide variety of financial services, including retail and investment banking services.

Suggestion 1—Simplifying and reordering the model

8. Some Board members suggested the proposed model could be simplified if the principles for classification of income and expenses that were proposed for ‘conglomerate’ entities (see rows 5–7 in Table 1) formed the starting point of the model for all entities. Exemptions or exceptions from this general classification model could then be provided for some entities.[6]

9. One Board member suggested there is no need for specific exemptions from the requirement to present subtotals. Instead, the Board could rely on the application of materiality to explain when subtotals may be omitted.

Suggestion 2—Require vs allow

10. The September 2018 staff proposals were formulated in a way that *allowed* some financial entities to use a different approach to presentation and classification than non-financial entities. However, some Board members suggested instead financial entities should be *required* to use different classification requirements. This is because Board members thought those classification requirements should not be seen as optional as they resulted in useful information—ie income and expenses related to an entity’s main business activities should be classified in operating profit.

Suggestion 3—<u>Only</u> main business activity

11. Many Board members did not support using the wording ‘*only* main business activity’ to describe entities in rows 2, 3 and 4 in Table 1. Board members said this wording was too restrictive and would lead to unintended outcomes in some cases. For example, the exemptions in rows 3 and 4 of Table 1[7] are designed to capture banks. However, many banks’ main business activities do not *only* consist of providing financing to customers and investing. Many banks have additional main business activities such as transaction advisory services.

[6] Also see paragraphs B2 and B6 of the September 2018 IASB *Update* in Appendix B.

[7] Also see paragraphs B3and B5 of the September 2018 IASB *Update* in Appendix B.

Suggestion 4—Expenses from financing activities for insurers

12. Applying the staff's September 2018 proposals, we expect most insurers would fall into the category of 'entities who invest in the course of their main business activity' in row 3 in Table 1. Therefore, insurers would be required to present a 'profit before financing and income tax' subtotal, with expenses from financing activities presented below that subtotal. A few Board members questioned whether the presentation of interest expenses on financial debt below the 'profit before financing and income tax' subtotal would result in useful information about insurers. Board members asked the staff to perform further research and outreach on this issue.

Other suggestions

13. The staff plan to address the following suggestions at a future meeting:

(a) a few Board members said that for insurers, management of cash and cash equivalents is likely to be closely linked to the entity's main investing activity. Therefore, they argued it may be more appropriate to present income from cash and cash equivalents within, rather than below, operating profit.

(b) a few Board members suggested replacing the exception for insurance finance expenses (income) (see paragraph B3(c) of Appendix B) with a principle—expenses related to financing *from* customers should be included in operating profit. In other words, the classification of expenses from financing activities should not only depend on what business activity the financing is used for, but should also depend on who the entity receives financing *from*.

Staff analysis

14. We propose to redraft the model to address suggestions 1–3 (paragraphs 8–11), while largely retaining the outcomes discussed at the September 2018 Board meeting, with which the Board agreed. In coming up with the proposed approach, our key considerations were:

(a) classification requirements resulting in useful information should not be optional but rather required. For example, banks should not have a classification option that could result in no interest expenses being included in operating profit.

(b) entities should not be required to allocate income and expenses when doing so would be arbitrary or the costs of allocation would outweigh the benefits.

15. Our proposed approach is:

(a) as a starting point, require all entities to apply the model for general corporates (general model); then

(b) consider exceptions or exemptions from the model for financial entities. IFRS 1 *First-time Adoption of International Financial Reporting Standards* uses the term ‘exemption’ for a voluntary approach and the term ‘exception’ for a required approach. We use these terms with the same meaning in this paper.

16. We have considered providing exceptions or exemptions in the following steps:

(a) provide exceptions from the general model requiring financial entities to classify income and expenses that would be considered a part of a measure of operating performance (but which are not included in operating profit in accordance with the model for general corporates) in operating profit (paragraphs 19–23);

(b) specify further exceptions or exemptions from the classification in the general model to provide relief from costly or arbitrary allocation of income and expenses between different sections in the statement(s) of financial performance (paragraphs 24–44); and

(c) consider the effects of these classification exceptions or exemptions on the presentation of subtotals, and whether specific exceptions or exemptions from the requirements to present those subtotals are needed (paragraphs 45–52).

17. We compare the proposals in this paper with the September 2018 proposals in paragraphs 53–54. The following tentative Board decisions made in September 2018 are not reconsidered in this paper and remain applicable:

(a) all entities are required to separately present the share of profit or loss from integral and non-integral associates and joint ventures below operating profit;

(b) entities with insurance finance expenses (income) are required to include those expenses (income) in operating profit; and

(c) all entities are required to present the unwinding of a discount on liabilities that do not arise from financing activities below operating profit.

18. In addition, we provide feedback from research undertaken in response to suggestion 4 in paragraphs 55–62. That research indicates there is no need to consider changing the model for insurers' expenses from financing activities.

Which income and expenses should be classified in operating profit?

19. When entities provide financing to customers, the margin between the interest income from that activity and the related interest expense (the net interest income) is an important indicator of operating performance. Interest income from the provision of financing to customers is included in operating profit applying the general model[8]. However, the related expenses from financing activities and income from cash and cash equivalents are not. Consequently, to enable entities to present net interest income, we think that entities that provide financing to customers as one of their main business activities, should classify expenses from financing activities and income from cash and cash equivalents relating to the provision of financing to customers in operating profit.[9]

20. Similarly, when an entity, in the course of its main business activities, invests in assets that generate a return individually and largely independently of other resources held by the entity, the investment returns are an important indicator of operating performance. Consequently, we think that such entities should classify income

[8] This is because interest income from the provision of financing to customers does not meet the definition of income from investments or financing activities (Appendix A includes these definitions).

[9] We think this principle only applies to entities that present income from the provision of financing to customers separately—for example it would apply to finance lessors but not to operating lessors.

(expenses) from investments made in the course of their main business activities in operating profit.

21. In summary, we recommend the following exceptions to the general model:

(a) an entity that provides financing to customers as a main business activity is required to include, in operating profit, expenses from financing activities and income from cash and cash equivalents relating to its financing business activity.

(b) an entity that, in the course of its main business activities, invests in assets that generate a return individually and largely independently of other resources held by the entity is required to include in operating profit, income (expenses) from investments made in the course of its main business activities.

22. We propose to use 'in the course of its main business activities' rather than 'as a main business activity' in (b) above. This is because we want to capture cases such as insurers, where investing may not be the main revenue-generating activity but arises in the course of the entity's main business activities.

23. We consider further exceptions or exemptions in the next subsection.

Should there be further exceptions or exemptions?

24. Some Board members and stakeholders have said it will be difficult for some entities to determine which of their liabilities fund the provision of financing to customers and which liabilities fund their other activities. Hence, the approach proposed in paragraph 21(a) would be difficult to apply.

25. On the one hand, we have heard that attributing liabilities to activities is feasible in some cases:

(a) some entities are organised in such a way that the provision of financing to customers is isolated in a separate legal entity, which raises its own funding. In these cases, the entity's liabilities and related expenses can be directly attributed.

(b) expenses from financing activities are often allocated to different business units or segments within a group for management reporting purposes.

26. However, even when expenses from financing activities are internally allocated such allocation may be based on intercompany pricing and may not involve specific allocation of external financial liabilities. Allocating liabilities and the related expenses could be particularly challenging for entities that have a central treasury department that raises funding for all the entity's activities.

27. We understand that entities who provide both financing to customers and invest[10] in the course of their main business activities (see rows 4 and 7 in Table 1) would also find it difficult to allocate expenses from financing activities to these two activities. For example:

(a) a bank which grants loans, but also invests in equity instruments may not be able to allocate to these two activities the interest expenses on their deposits and other debt; or

(b) a bank-insurer may not be able to allocate the interest expenses on their liabilities to their banking and insurance activities.

28. It is therefore questionable whether all entities would be able to allocate expenses from financing activities and income from cash and cash equivalents on a reasonable basis, and without undue costs.

29. We have not found evidence of entities of the types described in paragraph 27 making such an allocation in their financial statements today. We have also not heard any demand from users for such an allocation of expenses from financing activities and income from cash and cash equivalents for such entities.

30. We have therefore considered further exemptions or exceptions that would enable some entities to include *all* expenses from financing and income from cash and cash equivalents in operating profit, including those that are not related to the provision of financing to customers. In our analysis, we considered the following disadvantages of such exceptions or exemptions:

[10] ie invest in assets that generate a return individually and largely independently of other resources held by the entity.

(a) exemptions and exceptions reduce comparability between entities that are eligible for an exception or exemption and those that are not.

(b) exemptions reduce comparability within the set of entities that are eligible for an exemption. In other words, one entity could choose to use an exemption whereas a similar entity from the same industry could choose not to use the exemption.

Rejected approach—specific exception or exemption

31. We first considered, but rejected, providing a specific exception or exemption for the entities of the type described in paragraph 27, which provide both financing to customers and invest in the course of their main business activities. The Board could require (in the case of exception) or allow (in the case of exemption) such entities to include expenses from financing activities and income from cash and cash equivalents related to investing and providing financing to customers in operating profit.

32. The main advantages of such an approach are that:

(a) we provide relief for some entities for which the benefits of applying the principle in paragraph 21(a) are unlikely to exceed the costs; and

(b) by making the exception or exemption available to a relatively narrow set of entities, we manage any potential loss of comparability.

33. However, such an approach would not provide an exception or exemption for the example described in paragraph 11 of banks that provide financing to customers but also have other (non-investing) main business activities such as transaction advisory services. Such banks would be required to apply paragraph 21(a) and split their expenses from financing activities and income from cash and cash equivalents between the provision of financing to customers and those other activities. Entities are likely to incur costs to make such a split, though benefits for users are likely to be limited, because we have not heard any demand from users for such a split for banks. For this reason, we have rejected this approach.

Proposed approach—general exemption

34. We propose another approach—*allowing* entities that provide financing to customers as a main business activity to include *all* expenses from financing activities and

income from cash and cash equivalents in operating profit. We propose this approach because it would address the case of banks that provide financing to customers but also have other main business activities such as transaction advisory services.

35. Such an 'allowed' approach may result in some loss of comparability between similar entities (see paragraph 30(b)). However, entities that have main business activities other than providing financing to customers are likely to choose to split their expenses from financing activities and income from cash and cash equivalents rather than include them all in operating profit. This is because the sum of income and expenses from financing activities and cash and cash equivalents is likely to be a net expense. Therefore, entities will have an incentive to maximise operating profit by making the split. This incentive may help to limit the loss of comparability between similar entities.

36. An entity's choice as to which approach it uses to classify expenses from financing activities and income from cash and cash equivalents would be treated as an accounting policy as defined by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, and disclosed in accordance with paragraph 117 of IAS 1 *Presentation of Financial Statements*.

37. The disadvantage of this approach is that it does not allow entities to 'mix and match', for example entities could not move up expenses from financing activities relating to provision of financing to customers and relating to another activity (for example investing) and leave expenses from financing activities relating to a third activity (for example manufacturing) below operating profit. We considered building this option in to the approach but rejected it due to its complexity.

38. We also considered, but rejected, the following variant on the proposed approach: *allowing* entities whose *largest activity* (eg in terms of assets or revenue) is to provide financing to customers to include *all* expenses from financing activities and income from cash and cash equivalents in operating profit. We considered this approach to limit the population of entities that could apply the exemption. However, we rejected this approach because we are unsure whether all the banks we want to capture would meet this 'largest activity' criterion and might therefore be required to make allocations which are costly and/or arbitrary (for example a bank that provides both

financing to customers and conducts investing activities may conclude that its investing activities are the largest).

Should we provide a similar exception or exemption for income (expenses) from investments?

39. We have heard no feedback from our outreach suggesting that similar problems arise with the allocation of income (expenses) from investments between the investing and operating categories. Given our recommendation to provide an exemption from allocation of expenses from financing activities and income from cash and cash equivalents, we thought it would nevertheless be useful to analyse whether a similar exemption should be provided for income (expenses) from investments.

40. As discussed in paragraph 21(b), an entity would need to make an assessment of whether an investment in a particular asset is made in the course of its main business activities and allocate related income and expenses accordingly. This assessment is likely to involve the exercise of judgement.

41. We think that entities are likely to make a similar assessment when making an investment decision—in other words is the entity investing as part of a main business activity or not (for example in cases when entities invest excess funds whilst awaiting business expansion opportunities). We therefore think that entities could develop a reasonable basis for this assessment and the allocation of investment income between the operating and investing sections of the statement(s) of financial performance would not be arbitrary. However, there may be costs associated with making such an allocation of investment income.

42. Providing an exemption would have the following disadvantages:

    (a) information about investments not made in the course of an entity's main business activities is likely to be useful to users, regardless of the type of entity. This information would not be provided by entities choosing to apply the exemption.

    (b) the exemption might create an incentive for entities to include all income from investments in operating profit, as including income from investments in operating profit would be likely to increase that measure.

43. Considering the disadvantages of an exemption and the risk of arbitrary allocation being low, the staff think there should be no exemption from the requirement to allocate income (expenses) from investments between the operating and investing sections in the statement(s) of financial performance.

Staff recommendation

44. The staff recommendation in Question 1 below combines the proposals in paragraphs 21 and 34.

Question 1
Does the Board agree with the staff recommendation that: (a) an entity that provides financing to customers as a main business activity is required to include in operating profit either: (i) expenses from financing activities and income from cash and cash equivalents *relating to its financing business activity*; *or* (ii) *all* expenses from financing activities and income from cash and cash equivalents. (b) an entity that, in the course of its main business activities, invests in assets that generate a return individually and largely independently of other resources held by the entity is required to include in operating profit, income (expenses) from investments made in the course of its main business activities?

What does the new classification model for financial entities mean for presentation of subtotals?

45. The staff proposals in September 2018 provided some financial entities with specific exemptions from the requirement to present:

(a) the ‘profit before investing, financing and income tax’ subtotal; and

(b) the ‘profit before financing and income tax’ subtotal.

46. There were no exemptions provided for presentation of the operating profit subtotal—all entities would be required to present operating profit.

47. The staff proposed an exemption from the requirement to present a ‘profit before investing, financing and income tax’ subtotal because such a subtotal would be misleading for entities that include income from investments in operating profit. However, the Board has now tentatively decided to relabel ‘profit before investing, financing and income tax’ as ‘operating profit and share of profit or loss of integral associates and joint ventures’. We think that presentation of an ‘operating profit and share of profit or loss of integral associates and joint ventures’ subtotal would not provide misleading information about entities that include investment income in operating profit. The staff therefore think that the exemption (or exception) from this subtotal is no longer required.[11]

48. However, we think that an exemption or exception from the requirement to present profit before financing and income tax is still required.

49. In some cases, entities that provide financing to customers would:

(a) include all expenses from financing activities and income from cash and cash equivalents in operating profit; and

(b) have no other income or expenses required to be presented in the financing section below the ‘profit before financing and tax’ subtotal (eg the unwinding of a discount on a defined benefit liability).

Applying materiality, such entities would not be required to present the ‘profit before financing and income tax’ subtotal.

50. In other cases, an entity that provides financing to customers may include all expenses from financing activities and income from cash and cash equivalents in operating profit. However, such an entity may have other income or expenses required to be presented in the financing section below the ‘profit before financing and tax’ subtotal

[11] Applying the concept of materiality, entities that do not have material income (expenses) from integral associates and joint ventures would not be required to present this subtotal.

(eg the unwinding of a discount on a defined benefit liability). We think that in such cases the label ‘profit before financing and income tax’ would be misleading, because the entity’s expenses from financing activities would be included in the subtotal.

51. We think that, in the circumstances described in paragraph 50, entities should not present a ‘profit before financing and income tax’ subtotal. We think this should be an exception (ie shall not) rather than exemption (ie are not required to) because we do not think that entities should have an option to present a misleading subtotal.

52. Entities that do not provide financing to customers as a main business activity may also have no expenses from financing activities and income from cash and cash equivalents that are presented below operating profit—for example because they are fully equity-financed. However, we think in such cases the presentation of a ‘profit before financing and income tax’ subtotal is not misleading and it can be meaningfully compared with the ‘profit before financing and income tax’ subtotal of other entities that are debt-financed.

Question 2
Does the Board agree with the staff recommendation that an entity that provides financing to customers as a main business activity shall not present the ‘profit before financing and income tax’ subtotal if the entity does not present expenses from financing activities or income from cash and cash equivalents below operating profit?

How do the proposals in this paper compare with the September 2018 staff proposals?

53. We think the proposals in this paper would lead to similar outcomes to the September 2018 proposals. Appendix C provides a comparison of expected outcomes of the September 2018 proposals and the proposals in this paper.

54. However, there are differences in the approach between the two sets of proposals in that:

(a) the September 2018 proposals gave entities an *option* to either include income and expenses which are a part of their key performance metric in operating profit or present them below operating profit.

(b) the proposals in this paper:

(i) *require* entities to include income and expenses which are a part of their key performance metric in operating profit; and

(ii) *permit* entities that provide financing to customers to include all their expenses from financing activities and income from cash and cash equivalents into the operating section, avoiding the need to allocate these expenses (income).

Classification of expenses from financing activities for insurers

Board members' comments

55. Applying the staff's September 2018 proposals, we expect most insurers would fall into the category of 'entities who invest in the course of their main business activity' in row 3 in Table 1. Therefore, insurers would be required to present a 'profit before financing and income tax' subtotal, with expenses from financing activities presented below that subtotal. Expenses from financing activities would include interest expenses on long-term liabilities other than insurance contract liabilities ('financial debt') such as subordinated debt. However, insurance finance income and expenses on insurance contracts would be required to be presented above such a subtotal, within operating profit.

56. A few Board members questioned whether the presentation of interest expenses on financial debt below the 'profit before financing and income tax' subtotal would provide useful information about insurers:

(a) they questioned whether, similar to banks, insurers' operating and treasury/financing activities may be closely linked, so it may be more appropriate to present expenses from financing activities within operating profit; and

(b) in their experience, insurers will often only have a limited amount of expenses from financing activities. Such a subtotal may therefore be very close to profit before income tax and clutter the statement(s) of financial performance.

57. Board members asked the staff to perform further research and outreach on this issue.

Staff analysis

58. The staff conducted outreach with three insurance analysts. All analysts expressed the view that insurers' expenses on financial debt should be presented outside operating profit, because they believe:

(a) compared to banks, there is a clearer distinction between insurers' operating activities and treasury/financing activities.

(b) insurers' financial debt typically serves a different purpose than for banks. Insurers primarily issue debt with loss-absorbing capacity (eg hybrid debt) as a buffer for regulatory capital purposes and generally do not use these funds to generate a net interest margin. The role of insurers' financial debt is generally not to fund their day-to-day working capital requirements.

59. We therefore think that that insurers' expenses on financial debt are not generally considered to be part of their key operating performance metric(s).

60. In addition, the staff has looked at the financial statements and other reporting materials of 10 large insurers applying IFRS Standards. We found that:

(a) two entities presented an operating profit subtotal in their statement(s) of financial performance that excludes the interest expense on financial debt. This presentation is in line with the illustrative template for insurers issued by the accounting standard-setter in their jurisdiction.[12]

(b) the other eight entities did not present an operating profit subtotal in their statement(s) of financial performance. Interest on financial debt was usually presented as a separate line item, listed together with other types of expenses.

[12] Available at http://www.anc.gouv.fr/files/live/sites/anc/files/contributed/ANC/2.%20Normes%20internationales/NI%202013/Recommandation_2013_R05.pdf

(c) of the eight entities that did not present an operating profit subtotal in their statement(s) of financial performance, six did present an operating profit subtotal outside their financial statements. The interest on financial debt was included in operating profit in three cases and was excluded in the other three cases.

61. In addition, applying the concept of materiality, insurers with immaterial expenses from financing activities, income from cash and cash equivalents[13] and expenses from the unwinding of a discount (on liabilities other than insurance contract liabilities) would not be required to present a 'profit before financing and tax' subtotal. In our view, this addresses the concern in paragraph 56(b).

62. While our review of financial statements is inconclusive, the feedback received from user outreach confirms the Board's tentative decision. The staff do not think there is evidence of new information and therefore we do not think the Board should reconsider its tentative decision on this topic.

Question 3
Does the Board have any comments or questions about the staff analysis in paragraphs 58–62?

[13] We are planning to discuss at a future Board meeting whether insurers should include income from cash and cash equivalents in operating profit—see paragraph 13(a).

Appendix A—Tentative Board decisions on subtotals for non-financial entities

A1. In response to requests from users for more comparable subtotals in the statement(s) of financial performance, the Board has tentatively decided to require the following three subtotals in the statement(s) of financial performance for non-financial entities:

(a) operating profit;

(b) operating profit and share of profit of integral associates and joint ventures; and

(c) profit before financing and income tax.

A2. The Board has tentatively decided to define these subtotals by describing which items are excluded from profit or loss.

A3. The Board has tentatively decided non-financial entities would be required to include the following items in the financing section below the profit before financing and income tax subtotal:

(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 (ie unwinding of a discount on liabilities not arising from financing activities).

A4. The Board tentatively decided 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.

A5. The Board has tentatively decided non-financial entities would be required to present ‘income and expenses from investments’ between the ‘operating profit and share of profit of integral associates and joint ventures’ subtotal and the ‘profit before financing and income tax’ subtotal. The Board has tentatively defined ‘income and expenses from investments’ as ‘income/expenses from assets that generate a return individually and largely independently of other resources held by the entity’. The Board has tentatively decided 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’.

Appendix B—Extract from September 2018 IASB *Update*

B1. The Board discussed:

(a) the scope of the Board's proposal for a 'profit before finance income/expenses and income tax' subtotal;

(b) the scope of the Board's proposal for a 'profit before income/expenses from investments, finance income/expenses and income tax' subtotal;

(c) the implications of the scope proposals for the presentation of subtotals by entities with more than one main business activity; and

(d) the implications of the scope proposals for the presentation of the share of profit from investments in associates and joint ventures.

B2. The Board tentatively agreed in principle with the proposed requirements relating to (a)–(c) above but directed the staff to improve the proposals by:

(a) redrafting and reordering to simplify and clarify the proposals; and

(b) developing better ways to describe entities that are not required to provide some of the proposed subtotals.

The scope of the Board's proposal for a 'profit before finance income/expenses and income tax' subtotal

B3. The Board tentatively decided in principle that:

(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. Eleven of 14 Board members agreed and three disagreed with this decision.

(b) entities that do not present a 'profit before finance income/expenses and income tax' subtotal shall include in the 'business profit from consolidated entities' subtotal:

(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.

Eleven of 14 Board members agreed and three disagreed with this decision.

(c) entities with insurance finance income or expenses should include it in the ‘business profit from consolidated entities’ 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.) Twelve of 14 Board members agreed and two disagreed with this decision.

The scope of the Board’s proposal for a ‘profit before income/expenses from investments, finance income/expenses and income tax’ subtotal

B4. The Board tentatively decided in principle that:

(a) entities are not required to present a ‘profit before income/expenses from investments, finance income/expenses and income tax’ 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. Thirteen of 14 Board members agreed and one disagreed with this decision.

(b) entities that do not present a ‘profit before income/expenses from investments, finance income/expenses and income tax’ subtotal shall include income/expenses from investments made in the course of their main business activity within the ‘business profit from consolidated entities’ subtotal and below that subtotal present all other income/expenses from investments. Twelve of 14 Board members agreed and two disagreed with this decision.

The implications of scope proposals for the presentation of subtotals by entities with more than one main business activity

B5. The Board tentatively decided in principle that entities whose main business activities comprise investing and providing financing to customers are:

(a) not required to present a 'profit before finance income/expenses and income tax' subtotal and shall include, within the 'business profit from consolidated entities' subtotal, the following line items:

(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 'profit before income/expenses from investments, finance income/expenses and income tax' subtotal and shall include income/expenses from investments made in the course of their investing business activity within the 'business profit from consolidated entities' subtotal and below that subtotal, present all other income/expenses from investments.

Thirteen of 14 Board members agreed and one disagreed with this decision.

B6. The Board discussed, but did not reach a tentative decision about entities whose main business activities include a non-financial business activity and also include investing or providing financing to customers (or both). The Board indicated that such entities should not be exempt from presenting the 'profit before finance income/expenses and income tax' subtotal or the 'profit before income/expenses from investments, finance income/expenses and income tax' subtotal. Instead, such entities should be permitted or required to include some income or expenses from financing activities or investing activities in the 'business profit from consolidated entities' subtotal. The Board asked the staff to develop this proposal further and consider whether the approach used for such entities could be used to simplify the proposals for other entities.

The implications of the scope proposals for the presentation of the share of profit from investments in associates and joint ventures

B7. 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 ‘business profit from consolidated entities’ subtotal. All 14 Board members agreed with this decision.

Appendix C—Comparison of staff proposals in this paper with September 2018 staff proposals

Blue shading = difference in approach (outcome for an individual entity could be the same, depending on its accounting policy choice)			Expenses from financing activities and income from cash & cash equivalents		Income (expenses) from investments	
			September 2018	February 2019	September 2018	February 2019
	1	General corporates	All below operating profit	All below operating profit	All below operating profit	All below operating profit
One main activity	2	Entities whose only main business activity is providing financing to customers (eg traditional banks)	All above operating profit **OR** All below operating profit	Split: Related to provision of financing to customers above operating profit; rest below **OR** all above operating profit	All below operating profit	All below operating profit
One main activity	3	Entities who invest in the course of their only main business activity (eg investment property companies & insurers)	All below operating profit (except insurance finance expense/ income above operating profit)	All below operating profit (except insurance finance expense/ income above operating profit)	Split: In course of main business activity above operating profit; rest below **OR** all below operating profit	Split: In course of main business activity above operating profit; rest below
Multiple main activities	4	Entities whose main business activities only comprise investing and provision of financing to customers (eg universal banks)	All above operating profit **OR** All below operating profit	Split: Related to provision of financing to customers above operating profit; rest below **OR** All above operating profit	Split: In course of main business activity above operating profit; rest below **OR** all below operating profit	Split: In course of main business activity above operating profit; rest below
Multiple main activities	5	Entities whose main business activities comprise both a non-financial main business activity and provision of financing to customers	Split: Related to provision of financing to customers above operating profit; rest below **OR** All below operating profit	Split: Related to provision of financing to customers above operating profit; rest below **OR** All above operating profit	All below operating profit	All below operating profit
Multiple main activities	6	Entities whose main business activities comprise both a non-financial main business activity and investing	All below operating profit	All below operating profit	Split: In course of main business activity above operating profit; rest below **OR** all below operating profit	Split: In course of main business activity above operating profit; rest below
Multiple main activities	7	Entities whose main business activities comprise a non-financial main business activity, provision of financing to customers and investing	Split: Related to provision of financing to customers and investing above operating profit; rest below **OR** All below operating profit	Split: Related to provision of financing to customers above operating profit; rest below **OR** All above operating profit	Split: In course of main business activity above operating profit; rest below **OR** all below operating profit	Split: In course of main business activity above operating profit; rest below