IFRS

STAFF PAPER

IASB/FASB Agenda ref **21A**

23 July 2019

FASB | IASB Meeting

Project	Primary Financial Statements		
Paper topic	Summary of decisions		
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Purpose of this paper

1. This paper summarises the IASB's proposals on the Primary Financial Statements project. This paper should be read in conjunction with the slides presented in Agenda Paper 21B, which illustrate key aspects of the proposals.

Background

2. At the June 2018 joint IASB-FASB meeting the boards discussed:

   (a) the relationship between requiring further disaggregation and defining subtotals on the face of the statement(s) of financial performance;

   (b) the relationship between transparency and comparability; and

   (c) the application of project proposals to financial entities.

3. The IASB has now substantially concluded its discussions and has decided to publish an exposure draft. We plan to publish the exposure draft by the end of the year. The main decisions on the project since the boards last met include proposals for:

   (a) the classification of income and expenses by financial entities (paragraphs 16–18);

   (b) disclosure of unusual income and expenses (paragraphs 44–47); and

   (c) additional guidance on disaggregation (paragraphs 37–41).

Question

Question
Do the FASB members have questions or comments on the proposals that will be included in the IASB's exposure draft?

Summary of the Board's proposals

Topic	Staff condensed summary of the Board's tentative decisions	Board meeting
A full record of the Board's tentative decisions is available from the December 2016–June 2019 IASB Updates. All drafting in this summary is illustrative and subject to change.		
Project scope		
1. The Board proposes to focus on improvements to the statement(s) of financial performance and (to a lesser extent) to the statement of cash flows. 2. The Board proposes not to consider targeted improvements to the statement of financial position except to the extent work on other areas identifies possible improvements to that statement. Additionally, the Board proposes that segment reporting and the presentation of discontinued operations should not be part of the scope of the project.		December 2016
Due process		
3. The Board decided: a. to include the project on its active research agenda in May 2016; b. to move the project from its active research agenda to its standard-setting agenda in September 2018; and c. to publish an exposure draft as the consultation document for this project.		May 2016 September 2018 May 2019
Transition requirements and effective date		
4. The Board proposes: a. an entity shall apply the general requirements for retrospective application of changes in accounting policies, as set out in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, to new requirements arising from this project; and b. to provide an implementation period of 18–24 months beginning from the date of issue of any new or amended Standard(s) arising from the project.		June 2019
Structure of the statement(s) of financial performance		
Scope	5. The Board proposes to: a. require the following additional subtotal(s) in the statement(s) of financial performance: i. operating profit;	December 2016

Topic	Staff condensed summary of the Board's tentative decisions	Board meeting
	ii. operating profit and the share of profit or loss of integral associates and joint ventures; and iii. profit before financing and income tax; b. remove 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).	
Operating profit	6. Operating profit shall include all income and expenses from an entity's main business activities. These include: a. all income and expenses except those required to be included below operating profit as specified in paragraphs 7 and 12–15; and b. some additional income and expenses for particular types of financial entities as specified in paragraphs 16–18.	December 2016 November 2017 October 2018
Operating profit and the share of profit or loss of integral associates and joint ventures	7. The Board proposes that an entity shall: a. present the share of profit or loss of 'integral' associates and joint ventures accounted for using the equity method; and b. present a subtotal of 'operating profit and the share of profit or loss of integral associates and joint ventures'. 8. The Board decided to discuss in the exposure draft all of the alternative approaches it considered for presenting the share of profit or loss of integral associates and joint ventures and the Board's reasons for rejecting those approaches. 9. The Board proposes defining: a. 'integral' associates and joint ventures as associates and joint ventures accounted for using the equity method that do not generate a return largely independently from the other assets of the entity; and b. 'non-integral' associates and joint ventures as associates and joint ventures accounted for using the equity method that generate a return largely independently from the other assets of the entity. 10. The Board proposes that in classifying an associate or joint venture as 'integral or 'non-integral', an entity shall: a. consider the following non-exhaustive list of indicators (without any priority)—subject to drafting improvements: i. the existence of integrated lines of business across the entity and the associate or joint venture that creates an interdependency between the entity and the associate or joint venture; ii. the operation of the associate or joint venture is either vertically or horizontally embedded in the operations of the entity; iii. the entity shares a name or brand with the associate or joint venture so that externally it may appear as one and the same business in relation to the activities of the associate or joint venture (although the reporting entity may have other, separate businesses); iv. the associate or joint venture is a critical supplier or customer such that if the associate or joint venture did not exist, the entity would have difficulty replacing that supplier or customer without significant business disruption; and v. the sharing of capital or borrowing sources, such that the financing for the entity and the associate or joint venture is interrelated.	June 2017 September 2017 November 2017 January 2018 February 2018 September 2018

Topic	Staff condensed summary of the Board's tentative decisions	Board meeting
	b. only change the classification of an associate or joint venture if the relationship between the reporting entity and the associate or joint venture changes. 11. The Board proposes to amend the disclosure requirements of IFRS 12 *Disclosure of Interests in Other Entities* to reflect the introduction of the integral and non-integral classification of associates and joint ventures by requiring: a. the disclosure in paragraph 20 of IFRS 12 to be split between 'integral' and 'non-integral' associates and joint ventures; b. disclosure of the factors considered when determining whether associates and joint ventures are 'integral' or 'non-integral'; and c. disclosure where an integral or non-integral associate or joint venture has been reclassified in the period, to indicate how its relationship with the reporting entity has changed.	
Profit before financing and income tax	***Investing section*** 12. The Board proposes that an entity shall include an investing section including income and expenses from investments. 13. The Board proposes to: a. define 'income and expenses from investments' as '*income and expenses from assets that generate a return individually and largely independently of other entity resources*'. 'Expenses from investments' include incremental expenses related to an entity's investments. Incremental expenses are those expenses that the entity would not have incurred had the investments not been made. b. provide a list of some items that would typically be classified as income and expenses from investments and a list of some items that would typically not be classified as income and expenses from investments. ***Financing section*** 14. The Board proposes that an entity shall: a. present a profit before financing and income tax subtotal in the statement(s) of financial performance that includes operating profit, the share of profit of integral associates and joint ventures, and income and expenses from investments. b. include a financing section after the subtotal, comprised of: i. income from cash and cash equivalents (used as a proxy for cash and temporary investments of excess cash); ii. income and expenses from financing activities; and iii. 'interest' income or expenses on liabilities that do not arise from financing activities (unwinding of a discount), even though they do not meet the proposed definition of expenses from financing activities. 15. The Board proposes 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.'*	March 2017 June 2017 September 2017 November 2017 October 2018 June 2019

Topic	Staff condensed summary of the Board's tentative decisions	Board meeting
Classification of income and expenses by financial entities	16. The Board considered the classification of income and expenses for: a. entities that provide financing to customers as a main business activity; b. entities that, in the course of their main business activities, invest in assets that generate a return individually and largely independently of the entity's other resources; and c. entities that, in the course of their main business activities, invest in financial assets that generate a return individually and largely independently of the entity's other resources. 17. The Board proposes: a. an entity of the type described in paragraph 16(a) shall include in operating profit: i. expenses from financing activities relating to the provision of financing to customers and income from cash and cash equivalents relating to the provision of financing to customers; or ii. all expenses from financing activities and income from cash and cash equivalents. In this case, the entity shall not present the 'profit before financing and income tax' subtotal. This applies even when such an entity presents in the statement(s) of financial performance interest income or expenses on liabilities that do not arise from financing activities. b. an entity of the type described in paragraph 16(b) shall include in operating profit, income and expenses from investments made in the course of its main business activities. c. an entity of the type described in paragraph 16(c) shall include in operating profit, income from cash and cash equivalents. d. an entity with insurance finance income or expenses shall include such income or expenses in operating profit. (Applying the proposal in paragraph 17(b) related investment income and expenses shall also be included in that subtotal.) e. an entity shall include in operating profit expenses related to liabilities arising from investment contracts with participation features it issues that are within the scope of IFRS 9 *Financial Instruments*. 18. In addition, the Board proposes to: a. clarify and illustrate the types of entity the Board had in mind when developing the requirements that refer to 'main business activities' along the lines of paragraphs 63 and 64 of Agenda Paper 21B from April 2019; and b. specify that when a business activity constitutes a separate reportable segment applying IFRS 8 *Operating Segments*, this indicates the activity may be a main business activity.	June 2018 September 2018 February 2019 April 2019
Classification of exchange differences and gains and losses on derivatives	19. The Board proposes: a. an entity shall classify foreign exchange differences included in profit or loss in the same sections of the statement(s) of financial performance as the income and expenses arising from the items that gave rise to the foreign exchange differences. b. for financial instruments designated as hedging instruments in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments,* an entity shall classify gains and losses included in profit or loss on those hedging instruments:	June 2019

Topic	Staff condensed summary of the Board's tentative decisions	Board meeting
	i. in the operating section, if the instrument is used to manage risks relating to the entity's main business activities—except when doing so would require the grossing up of gains and losses; ii. in the financing section, if the instrument is used to manage risks relating to the entity's financing activities—except when doing so would require the grossing up of gains and losses; or iii. in the investing section in all other cases—including in the circumstances set out in (i) and (ii) involving the grossing up of gains and losses. c. an entity shall also adopt the classification set out in (b) for gains and losses included in profit or loss on a non-designated derivative—except when such a classification would involve undue cost or effort. In such cases, an entity shall classify gains and losses on the derivative in the investing section. d. an entity shall classify gains and losses included in profit or loss on a non-designated non-derivative financial instrument in accordance with the Board's definitions of the sections.	
Better ways to communicate other comprehensive income (OCI)	20. The Board proposes 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'). 21. The Board proposes not to: a. introduce a new subtotal between the two categories in (a) and (b) called 'income after remeasurements reported outside profit or loss'; b. 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; and c. 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.	December 2016 November 2017
Disclosure of management performance measures		
Identifying management performance measures	22. Management performance measures are: '*subtotals of income and expenses that are used in public communications with users of financial statements, outside financial statements, and which, in management's view complement IFRS-defined totals or subtotals in communicating an entity's performance'*. 23. The Board proposes an entity shall disclose management performance measures, if any, in the notes to the financial statements.	March 2017 June 2017 September 2017 December 2017 January 2018 February 2018 April 2018 May 2018 December 2018 April 2019
Disclosures about management performance	24. The Board proposes an entity shall disclose, in a single note, the following information for each management performance measure: a. a reconciliation between the management performance measure and the most directly comparable subtotal or total required by paragraph 81A of IAS 1—including the proposed new required subtotals developed as part of this project;	

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<tr><th>Topic</th><th>Staff condensed summary of the Board’s tentative decisions</th><th>Board meeting</th></tr>
<tr><td>measures</td><td>b. the income tax effect and the effect on non-controlling interests separately for each of the differences between the management performance measure and its most directly comparable subtotal or total. An entity shall:
i. determine such income tax effects based on a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction concerned; or by another method that achieves a more appropriate allocation in the circumstances; and
ii. disclose how, in its particular circumstances, the income tax effect of management performance measure adjustments has been determined.
c. a statement that the management performance measure, in management’s view, complements IFRS-defined totals or subtotals in communicating the entity’s financial performance, and is not necessarily comparable with measures provided by other entities;
d. a description of why management thinks the management performance measure complements IFRS-defined totals or subtotals, including an explanation of:
i. how the management performance measure has been calculated and why; and
ii. how the management performance measure provides useful information about the entity’s financial performance;
e. sufficient explanation, if there is a change in how the management performance measure is calculated, to help users understand the reasons for and effect of the change.

25. The Board proposes the following subtotals are not management performance measures and may be used as a directly comparable subtotal for the reconciliation required in paragraph 24a:
• profit before tax;
• profit from continuing operations;
• gross profit (defined as revenue less cost of sales); and
• operating profit before depreciation and amortisation.</td><td>June 2019</td></tr>
<tr><td>Additional requirements for MPMs</td><td>26. The Board proposes that management performance measures:
a. can only be income and expense subtotals, and not measures of liquidity or ratios.
b. are subject to the general requirement of faithful representation and should faithfully represent the financial performance of the entity to the users of financial statements.
c. should comply with the requirement in paragraph 45 of IAS 1 for consistency of presentation and classification over time.
d. should be labelled in a clear and understandable way so as not to mislead users.
e. cannot be presented using columns in the statement(s) of financial performance.

27. The Board also proposes that management performance measures can, in addition to being disclosed in the notes, be presented in the statement(s) of financial performance only if they fit into structure and comply with paragraph 85A of IAS 1.</td><td></td></tr>
<tr><td>EBIT(DA)</td><td>28. The Board proposes:
a. to add ‘operating profit before depreciation and amortisation’ to the list of measures that are not considered to be management performance measures, but not to use the label ‘EBITDA’ to describe this measure; and</td><td>December 2018
November 2018</td></tr>
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Topic	Staff condensed summary of the Board's tentative decisions	Board meeting
	b. not to provide examples of when it is potentially misleading for an entity to use the label 'EBIT' or the label 'EBITDA' to describe performance measures included in the financial statements. 29. The Board instructed staff to ask in the exposure draft whether it should provide guidance on the use of the label 'EBITDA'.	
Adjusted earnings per share (EPS)	30. The Board proposes that, if an entity identifies a management performance measure, it will not be required to disclose in the notes adjusted EPS calculated consistently with the management performance measure. 31. The Board also proposes: a. an entity would continue to be permitted to disclose adjusted EPS; and b. to clarify an entity would be prohibited from presenting adjusted EPS in the statement(s) of financial performance.	June 2017 April 2018 May 2018
Statement of cash flows		
Scope	32. The Board proposes: a. to eliminate options for the classification of the cash flows from interest and dividends in the statement of cash flows; and b. an entity shall use the operating profit subtotal as the starting point for the indirect reconciliation of cash flows from operating activities. 33. The Board proposes not to: a. align the operating section of the statement of cash flows with a corresponding section in the statement(s) of financial performance; or b. make further improvements to the statement of cash flows, besides those mentioned above.	December 2016 December 2017
Classification of cash flows from interest and dividends	34. The Board proposes an entity (including a financial entity) shall: a. classify cash flows from dividends paid as financing cash flows. b. present the investing cash flows of 'integral' associates and joint ventures accounted for using the equity method separately from those of 'non-integral' associates and joint ventures within the 'investing activities' section of the statement of cash flows. 35. The Board proposes a non-financial entity shall classify: a. cash flows arising from interest incurred on financing activities—including interest paid that is capitalized as part of the cost of an asset—as financing cash flows; and b. cash flows arising from interest and dividends received from non-equity-accounted investments (including from associates and joint ventures not accounted for using the equity method) as investing cash flows.	December 2017 February 2019 April 2019

Topic	Staff condensed summary of the Board's tentative decisions	Board meeting
	36. The Board proposes a financial entity (an entity that provides financing to customers as a main business activity and/or invests in the course of its main business activities in assets that generate a return individually and largely independently of other entity resources) shall classify cash flows from dividends received, interest paid and interest received each in a single section of the statement of cash flows. A financial entity shall determine the section in which to classify these cash flows as follows: a. if the entity classifies related income (expenses) in a single section of the statement(s) of financial performance, the entity shall present related cash flows in that section; or b. if the entity classifies related income (expenses) in more than one section of the statement(s) of financial performance, the entity shall make an accounting policy choice regarding the section of the statement of cash flows in which to classify related cash flows.	
Disaggregation		
Principles of aggregation and disaggregation	37. The Board proposes 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 the 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. 38. The Board proposes the following principles for aggregation and disaggregation: a. items that share similar characteristics should be classified and aggregated together; b. items that are dissimilar from other items should not be combined with other items and should be separated or disaggregated; and c. aggregation and disaggregation in the financial statements should not obscure relevant information or reduce the understandability of the information presented and should also contribute to a faithful representation of the items presented. 39. The Board proposes to define classification, aggregation and disaggregation as follows: *a. classification is the sorting of assets, liabilities, equity, income and expenses and cash flows on the basis of shared characteristics;* *b. aggregation is the adding together of individual items that share characteristics and are classified together; and* *c. disaggregation is the separation of an item or group of items into dissimilar component parts.* 40. The Board proposes to provide the following guidance on the steps involved in aggregation and disaggregation: a. classifying the effects of individual transactions or other events into assets, liabilities, equity, income and expenses; b. separating assets, liabilities, equity, income and expenses into groups based on their characteristics (for example, their nature, their function, their measurement basis or another characteristic) resulting in the presentation of line items that share at least one characteristic in the primary financial statements; and	December 2016 March 2017 May 2018 February 2019

Topic	Staff condensed summary of the Board's tentative decisions	Board meeting
	c. separating the line items presented in the primary financial statements based on further characteristics resulting in the separate disclosure of items in the notes, if those items are material. 41. The Board proposes the following additional guidance for material balances comprised of immaterial items: Items presented in the primary financial statements or disclosed in the notes shall be described in a way that faithfully represents the items they aggregate. Faithful representation could be achieved by using item labels that describe the shared characteristics that form the basis of the aggregation. In producing financial statements, an entity may identify items that do not appear to share characteristics with other items and are not material but that when aggregated would result in a material balance. Labelling these items with a non-descriptive label such as 'other' would not faithfully represent these items without additional information. In order to faithfully represent these items, an entity shall: a. reconsider whether the immaterial item(s) share similar characteristics with other immaterial item(s) and can be aggregated to create a material item that can be described in a manner that faithfully represents the aggregated items; b. consider whether the aggregated items may be described in a way that faithfully represents the dissimilar items without changing the level of aggregation; or c. if (a) and (b) are impractical, disclose information in the notes about the composition of the aggregated item, for example, 'the balance consists of several unrelated immaterial amounts, the largest balance of which is CU10 of property maintenance expenses'.	
Analysis of operating expenses by nature or function	42. The Board proposes: a. to describe the 'nature of expense' method and the 'function of expense' method used to analyse expenses required by paragraph 99 of IAS 1. b. to continue requiring that an entity shall provide an analysis of expenses using the method, either function of expense or nature of expense, that provides the most useful information to users. c. an entity shall consider the following factors to determine whether a function of expense or nature of expense method provides the most useful information to users: i. which method provides the best information about the key components or drivers of profitability. ii. which method most closely matches how management reports internally to the board or key decision makers and the way the business is run. iii. peer industry practice. iv. whether the allocation of expenses to functions would be so arbitrary that it would not provide a sufficiently faithful representation of the composition of an entity's functions. In such cases, a 'nature of expense' method should be used. d. an entity shall: i. present its primary analysis of expenses in the statement(s) of financial performance. ii. disclose in a single note additional information on the nature of the expense when it provides its primary analysis of expenses using the function of expense method. This information may be provided at an entity level, rather than as a breakdown of each functional line item presented.	September 2017 May 2018

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	43. The Board proposes not to require an entity that uses the 'nature of expense' method to provide information using the 'function of expense' method.	
Disclosure of unusual income and expenses	44. The Board proposes to: a. define unusual income and expenses as follows: '*Unusual income and expenses are income or expenses with limited predictive value because it is reasonable to expect that similar income and expenses will not arise for several future annual reporting periods. Similar income or expenses are those that are similar in type and amount.*' b. state that gains and losses arising from the remeasurement of items required to be measured at current value (including fair value) generally should not be classified as unusual income and expenses. 45. The Board proposes that an entity shall disclose the following information about unusual income and expenses in a separate note: a. the amount of unusual income and expenses recognised in the period, attributed to line items in the statement(s) of financial performance. In addition, an entity shall attribute unusual expenses to categories of expense by nature, when it provides its primary analysis of expenses using the function of expense method. b. a narrative description of the transactions or other events that gave rise to the unusual income and expenses. 46. The Board proposes not to require an entity to provide information about income or expenses related to unusual income or expenses (unless those income or expenses themselves meet the definition of unusual). 47. The Board proposes not to provide guidance stating that: a. information provided about unusual income and expenses should be neutral, noting that all information in financial statements is expected to be neutral; and b. an entity may consider the past occurrence of similar income and expenses to assess whether it is reasonable to expect that similar income and expenses will arise in the future.	September 2018 March 2019
Minimum line items	48. The Board proposes: a. an entity may need to present the line items that are required to be presented in the statement(s) of financial performance in more than one section of that statement; b. to remove the requirement in paragraph 82(b) of IAS 1 to present 'finance costs' in the statement(s) of financial performance; c. to clarify that when line items are required to be presented in the statement(s) of financial performance, that requirement necessitates separate presentation, regardless of the method of analysis of expenses within operating profit; d. an entity shall present in the statement of financial position: i. goodwill; ii. investments in 'integral' associates and joint ventures accounted for using the equity method; and	November 2018 March 2019

Topic	Staff condensed summary of the Board's tentative decisions	Board meeting
	iii. investments in 'non-integral' associates and joint ventures accounted for using the equity method. e. to add 'expenses from financing activities' to the list of line items in paragraph 82 of IAS 1 required to be presented in the statement(s) of financial performance. The Board noted that the requirements in paragraphs 32–35, 82(a)(i) and 82(ba) of IAS 1 apply to line items presented below the profit before financing and income tax subtotal. The Board asked the staff to clarify in drafting that items that meet the definition of interest expense on liabilities not arising from financing activities should, if material, be disaggregated from the required line items included in the financing section of the statement of profit or loss. 49. The Board proposes not to add amortisation, depreciation or research and development expenditure to the list of line items in paragraph 82 of IAS 1 required to be presented in the statement(s) of financial performance.	
Templates or examples	50. The Board proposes: a. to develop non-mandatory examples to illustrate the Board's decisions regarding this project. b. to develop illustrative examples of: i. the statement(s) of financial performance for different types of entities; ii. the statement of cash flows for a financial entity and a non-financial entity based on the current illustrative examples in IAS 7; and iii. any notes that are introduced or amended by the project; c. to include illustrative examples for the statement(s) of financial performance for the following types of entity: i. a non-financial entity (both by function and by nature); ii. an investment property company; iii. an insurer; iv. a traditional bank with no material investing activities; v. a bank engaged in both investing and customer financing activities; vi. a bank-insurer; vii. a manufacturer that conducts investing activities; and viii. a manufacturer that provides financing to customers.	December 2016 November 2018