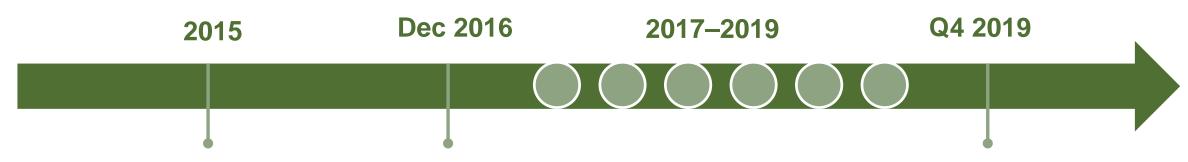
IASB/FASB Agenda ref 21B

Primary Financial Statements

This presentation has been prepared for discussion at a public educational meeting of the US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (Board). It is not intended to represent the views of the boards or any individual member of either board or the staff. Comments on the application of IFRS® Standards or US GAAP do not purport to set out acceptable or unacceptable application of IFRS Standards or US GAAP. Tentative technical decisions are made in public and reported in FASB Action Alert or in IASB *Update*. Official positions of the FASB or the IASB are determined after extensive due process and deliberations.



Primary Financial Statements project



Agenda Consultation identified the project as a priority

Board decision on project scope

Board discussions on topics in project scope

Publish Exposure Draft for public comment



Targeted improvements to the primary financial statements with a focus on the statement(s) of financial performance



out of scope

- Fundamental revision of the statements of financial position, cash flows and changes in equity
- Guidance on content of OCI and timing of recycling
- Segment reporting
- Presentation of discontinued operations



Main issues the Board is addressing in the project



Statements of financial performance are not sufficiently comparable between different companies

Introduce required and defined subtotals in the statement(s) of financial performance



Non-GAAP measures can provide useful information, but transparency and discipline need to be improved

Introduce disclosure of

Management Performance

Measures (MPMs)



Level of disaggregation does not always provide the information I need

Introduce requirements to improve disaggregation



Introducing required and defined subtotals in P&L

(example for general corporates, analysis of expenses by nature)

Revenue	16,500
Changes in inventories of finished goods and work in progress	(1,000)
Raw material and consumables used	(6,000)
Employee benefits expense	(4,000)
Amortisation expense	(800)
Depreciation expense	(1,200)
Impairment of property, plant and equipment	(500)
Operating profit	3,000
Share of profit of integral associates and JVs	500
Operating profit and share of profit or loss of integral associates and JVs	3,500
Changes in the fair value of financial assets	250
Dividend income	50
Share of profit of non-integral associates and JVs	100
Profit before financing and income tax	3,900
Interest income from cash and cash equivalents	100
Expenses from financing activities	(1000)
·	
Unwinding of discount on pension liabilities and provisions	(100)

Operating

Investing

Financing



Profit before financing and income tax



Objective: enable comparison of entities with different capital structures

Items excluded from profit before financing and income tax:

Income from cash & cash equivalents

Used as a proxy for income from excess cash and temporary investments of excess cash

Expenses (income) from financing activities

Financing activities are defined as:

- receipt or use of a resource (or credit)
 from a provider of finance
- expectation that resource will be returned to provider of finance
- expectation that provider of finance is appropriately compensated through finance charge

Expenses from liabilities not arising from financing activities

Includes specified items such as unwinding of the discount on provisions and net interest on net defined benefit liabilities.

Income (expenses) from investments



Objective: enable investors to value investments separately

Definition

'income (expenses) from assets that **generate a return individually and largely independently** of other resources held by the entity' (includes incremental expenses)

Presentation

Required to be presented between the 'operating profit and share of profit of integral associates and joint ventures' subtotal and the 'profit before financing and income tax' subtotal.

Examples

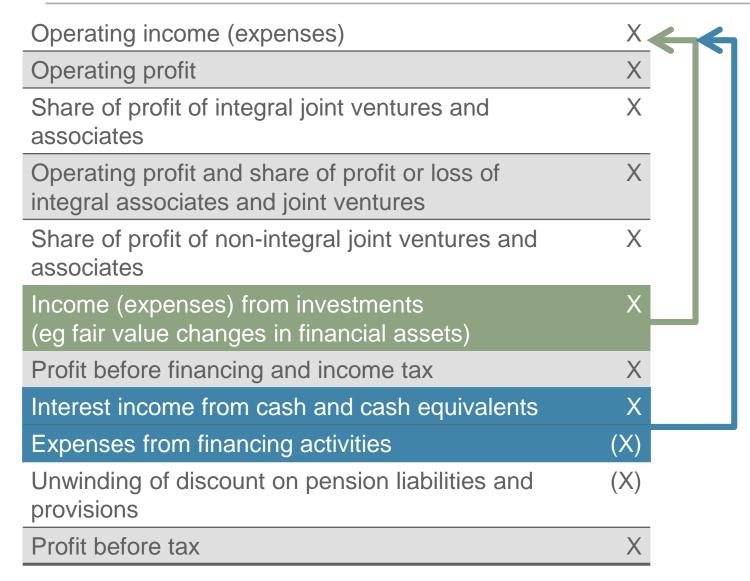
(for entities that do not invest in the course of their main business activities*)

- fair value changes and rental income on investment property
- interest income on financial assets (other than cash & cash equivalents)
- dividends and fair value changes on non-consolidated equity investments



^{*} eg for an investment property company, income from investment properties would be included in operating profit.

Classification of income/expenses for financial entities



Included in operating profit for entities that invest* in the course of their main business activities.

To the extent income (expenses) arise from investments made in the course of main business activities.

Included in operating profit for entities that **provide financing to customers** as a main business activity.

Accounting policy choice whether to include all expenses (income) or only those related to the provision of financing to customers.

^{*}in assets that generate a return individually and largely independently of other entity resources

Example—Bank with multiple business activities

Extract from statement(s) of financial performance	
Interest income*	X
Interest expense	(X)
Net interest income	X
Fee and commission income	X
Fee and commission expense	(X)
Net fee and commission income	X
Net trading income	X
Net investment income	X
Credit impairment losses	(X)
Employee benefit expenses	(X)
General and administrative expenses	(X)
Operating profit	X
Share of profit of integral associates and joint ventures	X
Operating profit and share of profit of integral associates and JVs	X
Share of profit of non-integral associates and joint ventures	X
Unwinding of discount on pension liabilities	(X)
Profit before tax	X

Bank with multiple business activities, including investing and customer financing activities.

all expenses from financing activities in operating profit, rather than below 'profit before financing and tax'

income (expenses) from **investments** made in the course of the entity's **main business activity** are included in operating profit.

entity does not present 'profit before financing and income tax' subtotal

*Interest revenue calculated using the effective interest method would be presented separately (IAS 1.82(a)(i))

Management performance measures (MPMs)

Disclosure in the notes of measures of profit not defined by IFRS Standards

In management's view complements IFRS-defined totals or subtotals in communicating an entity's performance

Same measure must be used in public communications with users outside financial statements

Must faithfully represent the financial performance of the entity to the users

Accompanied by disclosures to **enhance transparency**, in a **single note** —including a **reconciliation** to the closest IFRS-defined total or subtotal (see example on next slide)



Example of MPM reconciliation

The MPM is disclosed in a **separate reconciliation** in the **notes**:

Adjusted operating profit (MPM)	4,400	Tax	NCI
Restructuring expenses for the closure of Factory A	(1,000)	200	50
Impairment of asset B	(400)	80	-
Operating profit (IFRS-specified)	3,000		



Most directly comparable subtotal/total specified by IFRS Standards—can be:

- any of the subtotals required by para. 81A of IAS 1;
- any of the three subtotals proposed in this project;
- profit before tax, profit from continuing operations or gross profit; or
- operating profit before depreciation and amortisation



Tax effect is based on a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction concerned; or a more appropriate allocation.



What does this mean for EBITDA?

Existing practice is likely to continue, ie:

- Diversity in how companies define EBITDA
- Not all companies will disclose an EBITDA measure

However, the Board's proposals would have the following benefits:

Improved transparency

If companies disclose an EBITDAtype measure that is not defined as operating profit before D&A, they will need to provide disclosures that explain how they have calculated EBITDA, including a **reconciliation**

Comparable starting point & improved disaggregation

Investors will have the **building blocks** to calculate their own EBITDA:

- a comparable starting point (defined operating profit or profit before financing)
- information on operating expenses by nature including depreciation, amortisation and impairment.

Disaggregation

General

Improved principles, definitions and guidance on aggregation and disaggregation (eg on 'other' balances)

Expense analysis

- primary analysis of operating expenses in the statement(s) of financial performance by nature or by function
- when primary analysis of expenses is presented by function, a full analysis
 of expenses by nature in the notes is required.

Unusual items

- **Definition:** 'income or expenses with limited predictive value because it is reasonable to expect that similar items will not arise for several future annual reporting periods. Similar items are income or expenses that are similar in type and amount.'
- Required note disclosing unusual items, attributed to P&L line items

Illustrative examples

- for the statement(s) of financial performance, statement of cash flows and other notes introduced by the project
- for a limited number of industries

Non-mandatory illustrative examples

Statement(s) of financial performance

Types of entities

- a non-financial entity (both by function and by nature)
- an investment property company
- an insurer
- a traditional bank with no material investing activities
- a bank with both investing and customer financing activities
- a bank-insurer
- a manufacturer that conducts investing activities
- a manufacturer that provides financing to customers

Statement of cash flows

- a financial entity
- a non-financial entity
 (Based on the current illustrative examples in IAS 7)



Any notes that are introduced or amended by the project