

STAFF PAPER

June 2019

IASB[®] Meeting

Project	Primary Financial Statements		
Paper topic	Differences between MPMs and segment measures of profit or loss		
CONTACT(S)	Zhen Xu Aida Vatrenjak	zxu@ifrs.org avatrenjak@ifrs.org	+44 (0)20 7246 6477 +44 (0)20 7246 6456

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS[®] Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB[®] *Update*.

Purpose of this paper

1. This Agenda Paper discusses disclosure requirements about the differences between management performance measures (MPMs) and measures of profit or loss for the reportable segments.

Staff recommendation in this paper

2. The staff recommend the Board does not require entities to disclose how and why the management performance measure differs from the total of the measures of profit or loss for the reportable segments.
3. This recommendation would reverse a previous Board decision.

Structure of the paper

4. This paper is structured as follows:
 - (a) background (paragraphs 5–7)
 - (b) how would the Board’s tentative decisions apply in practice? (paragraphs 8–10)
 - (c) would the proposed disclosures provide useful information? (paragraphs 11–16)
 - (d) should the Board remove the disclosure requirements about the differences between MPMs and segment measures of profit or loss? (paragraphs 17–19)

Background

5. Paragraph 8 of IFRS 8 *Operating Segments* requires entities to report a measure of profit or loss for each reportable segment. In discussions on this project, some Board members asked how MPMs disclosed by an entity might relate to the total of the measures of profit or loss for the entity's reportable segments. The Board thought that MPMs might be similar to segment measures because both MPMs and segment measures might be expected to be used by management to assess the performance of the entity, ie both reflect management's view of performance.
6. In its January 2018 meeting¹, the Board tentatively decided that the reconciliation between the MPM and the most directly comparable IFRS-defined total or subtotal should be provided separately from the operating segment information disclosed in accordance with IFRS 8. However, entities would not be prohibited from also including MPM(s) within the operating segment information. Furthermore, the Board tentatively decided to require entities to disclose an explanation of how and why the MPM(s) differ from the total of the measures of profit or loss for the reportable segments.
7. In outreach meetings held after the Board made this tentative decision, the staff heard questions from stakeholders about these disclosures, including:
 - (a) what is the purpose of this disclosure?
 - (b) does the Board expect MPM(s) and segment measure(s) of performance to be the same?
 - (c) when are MPM(s) considered to be different from segment measure(s) of profit or loss?

How would the Board's tentative decisions apply in practice?

8. The staff reviewed the annual reports of 85 entities from different jurisdictions and different industries to compare the measures of profit or loss for the reportable

¹ See [January 2018 IASB Update](#).

segments and alternative performance measures (APMs) identified. The result of the research is summarised in the table below:

Table 1 Assessment of alignment between APMs and segment measures of profit or loss in sample analysis

Scenario ref #	How do APMs and segment measures of profit or loss align?	Number of entities	Are measures aligned?
1	One APM and one segment measure provided which are the same	21	Yes
2	Multiple APMs and multiple segment measures provided which are the same	5	Yes
3	Multiple APMs provided, at least one of which is the same as one of the segment measures provided	21	Partially
4	None of the APMs are the same as the segment measure(s)	19	No
5	No APMs identified	13	n/a
6	No segment information (includes an entity with no APM either)	6	n/a
	Total number of entities	85	

9. Applying the tentative decision described in paragraph 6, and assuming the APMs identified in table 1 would be identified as MPMs, we think that:
 - (a) entities in scenarios 1, 2, 5 and 6 would not be required to provide the proposed disclosures because there are no differences between the APM(s) and the segment measures;
 - (b) entities in scenario 4 would be required to provide the proposed disclosure; and
 - (c) it is unclear whether entities in scenario 3 would be required to provide the proposed disclosure (because at least one APM disclosed is the same as one of segment measures of profit or loss but there are APMs that are different to some segment measures of profit or loss).

10. We have further analysed the results of scenario 4 (19 entities):
 - (a) seven entities reported operating profit (which the Board is proposing to define) as a segment measure of profit or loss, and adjusted operating profit or EBITDA as APM;
 - (b) four entities reported an IFRS defined profit or loss as a segment measure of profit or loss, and an adjusted profit measure as APM;

- (c) four entities reported gross profit (which the Board is proposing to define) as a segment measure of profit or loss and EBITDA or adjusted EBITDA as an APM;
- (d) two entities reported profit before interest and taxes (which the Board is proposing to define as profit before financing and income taxes) as a segment measure of profit or loss and adjusted profit before interest and taxes as APM; and
- (e) two entities reported specifically defined measures of segment profit or loss and adjusted profit and EBITDA as APMs.

Would the proposed disclosures provide useful information?

11. We think that disclosure of the differences between MPM(s) and measures of profit or loss for the reportable segments would not provide useful information in some of the scenarios described in Table 1. We explain this further in paragraphs 12-16.
12. If entities have multiple MPMs and multiple segment measures of profit or loss and at least one MPM is the same as a segment measure of profit or loss, (ie entities in scenario 3 above), we think that it would be unnecessary to require an explanation of how the MPM(s) differ from the segment measure(s) of profit or loss. This is because:
 - (a) paragraph 28(b) of IFRS 8 requires entities to disclose a reconciliation of segment measures of profit or loss to the entity’s profit or loss (before or after tax depending on the entity’s circumstance); and
 - (b) the Board is proposing to require a reconciliation between an entity’s MPM(s) and the most directly comparable IFRS-defined subtotal or total, with tax effect separately disclosed.
13. Consequently, we think users will have enough information to be able to understand the relationship between the measures of profit or loss for the reportable segments and the entity’s MPMs.
14. In this scenario, explanation of the reasons for the difference between MPMs and segment measures of profit or loss may be boilerplate and thus unnecessary (for example entities might use one or two measures to manage segment performance, and

identify additional measures as MPMs in order to provide complementary information).

15. If the segment measure is an IFRS-defined subtotal (ie entities in scenario 4 identified in paragraphs 10 (a)-10(d)), we think it would be counter-intuitive and unnecessary to require entities to provide an explanation of and the reason for the differences between an MPM and the segment measures of profit or loss. This is because:
- (a) the combination of the MPM reconciliation to the closest IFRS-defined subtotal and the information presented in the statement(s) of financial performance would provide enough information for a user to reconcile the MPM to the segment measure of profit or loss; and
 - (b) the reason for the difference is that IFRS-defined subtotals cannot be MPMs, and segment measures of profit or loss can (and often are). Disclosing this would amount to boilerplate information.
16. If entities have a segment measure of profit or loss that is not an IFRS-defined subtotal and that measure is different from the MPMs (ie entities in scenario 4 identified in paragraph 10(e)), requiring an explanation of the difference may be unnecessary for the reason in paragraph 12. On the other hand, explanation of the reason for the difference may be useful in this scenario. However, our research suggests that such circumstance are rare (it occurred in two out of 85 entities in our sample—see paragraph 10(e)). Consequently, we do not think that the benefits to users of providing this information would justify the cost to preparers.

Should the Board remove the disclosure requirements about differences between MPMs and segment measures of profit or loss?

17. We think the requirement to provide an explanation of how MPM differs from segment measures of profit or loss is unnecessary for the reasons discussed in paragraphs 12 and 15.
18. Whilst requirement to explain why MPMs differ from segment measures could be useful in the circumstances discussed in paragraph 16, our sample-based analysis indicates that such circumstances are not expected to be common. We therefore think this requirement would add unnecessary complexity.

19. Consequently, the staff recommend removing the proposed requirement for entities to disclose how and why the MPM differs from the total of the measures of profit or loss for the reportable segments.

Question 1

Does the Board agree with the staff recommendation to not require entities to disclose how and why the management performance measure differs from the total of the measures of profit or loss for the reportable segments?

This recommendation would reverse a previous Board decision.