

STAFF PAPER

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Project	Primary Financial Statements		
Paper topic	Result of outreach on scope of project		
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Purpose of paper

1. The purpose of this paper is to describe feedback received during outreach conducted to help the Board define the scope of the Primary Financial Statements project.

Summary of feedback

2. This paper includes feedback from:
 - (a) users of financial statements; and
 - (b) formal advisory bodies to the Board, ie the IFRS Advisory Council, Accounting Standards Advisory Forum (ASAF), Capital Markets Advisory Committee (CMAC), Global Preparers Forum (GPF) and IFRS Taxonomy Consultative Group (ITCG).
3. The staff conducted face-to-face meetings, teleconferences and video conferences to gather views from stakeholder representatives in Europe, North America, Africa and Asia.
4. We focused primarily on users of the financial statements because we wanted to understand whether and how current financial reporting translated into problems that users found difficult to overcome.
5. From June–October 2016, the Board and staff attended more than 40 meetings with stakeholders and used various types of presentations or discussions.

6. Most stakeholders we contacted expressed:
 - (a) support for a project to improve the structure and content of the primary financial statements beginning with the statement(s) of financial performance;
 - (b) fewer concerns about the structure and content of the other primary financial statements except for the operating section of the statement of cash flows.

7. We received reasonably consistent support for the following specific approaches to improving the structure and content of the primary financial statements:
 - (a) requiring additional subtotals in the statement(s) of financial performance—eg earnings before interest and tax (EBIT), operating profit, and some management view of profit, such as recurring operating profit;
 - (b) adding a new earnings per share (EPS) measure which reflects the management view of profit;
 - (c) changing the definition of operating cash flows and aligning the new definition with a new operating profit subtotal in the statement(s) of financial performance;
 - (d) removing the presentation options for dividends and interest in the statement of cash flows;
 - (e) developing templates or formats for the primary financial statements for a limited number of industries; and
 - (f) requiring additional line items and subtotals in segment disclosures.

Structure of paper

8. This paper is structured as follows:
 - (a) background and problem definition (paragraphs 9-11);
 - (b) general feedback received (paragraphs 12-14);

- (c) feedback from early research using open-ended questions (paragraphs 15-18);
- (d) feedback from ten possible approaches for improving the structure and content (paragraphs 19-35);
- (e) feedback from other outreach (paragraphs 36-48); and
- (f) other suggestions from stakeholders (paragraphs 49-53).

Background and problem definition

9. In our research into the reporting of information in the financial statements (as described in paper AP 21A *Analysis of financial statements presentation*), we noted:
 - (a) the structure and content of the statement(s) of financial performance vary even among entities in the same industry;
 - (b) many entities present an operating profit subtotal that corresponds broadly to earnings before interest and tax (EBIT), but these subtotals are often calculated differently;
 - (c) many entities also present an adjusted operating profit (eg operating profit before non-recurring items) but adjustments vary and lack transparency;
 - (d) the starting point for determining net cash flow from operating activities varies;
 - (e) the presentation of interest and dividends in the statement of cash flows varies;
 - (f) the sample entities exhibited few major inconsistencies in the presentation of the statement of financial position; and
 - (g) the number of line items presented in segment information varies.

10. We also conducted research on how entities report alternative performance measures (as described in AP 21B *Use of performance measures*). We observed:

- (a) in their communications with stakeholders, entities use performance measures based on (i) IFRS specified information, (ii) not explicitly required IFRS information and (iii) non-IFRS information;
- (b) outside the financial statements (for example, in management commentary, investor presentations and press releases), there is widespread use of performance measures based on non-IFRS information;
- (c) performance measures presented outside the financial statements are sometimes also presented in the financial statements, but not always; and
- (d) there are commonly used performance measures but they are often calculated differently, for example:
 - (i) adjusted operating profit;
 - (ii) adjusted profit; and
 - (iii) adjusted basic Earnings Per Share (EPS).

11. The observations and concerns in paragraphs 9-10 lead to several questions to pose to our stakeholders:

- (a) are these observations actual ‘problems’ for users of financial statements?
- (b) if so, are these problems:
 - (i) insurmountable? and/or
 - (ii) ones that the Board should attempt to resolve?
- (c) if the Board should attempt to resolve them, then what are the possible approaches to pursue in a Board research project?

General feedback received

12. In paragraph 11 we noted several questions that followed from our observations of actual financial reporting in the primary financial statements under current IFRS requirements. We posed these questions in most of our outreach activities and, in general:

- (a) many stakeholders agreed that the issues we identified in paragraph 9-10 are problems.
- (b) many stakeholders did not view these problems as insurmountable, if they have enough time and resources to find and make comparable the information necessary for their analysis. However, many users also stated they would prefer not having to spend as much time searching for or making the information more consistent or comparable. Some preparers welcomed the idea that some alternative performance measures would be brought into audited IFRS financial statements. We also heard from some regulators and standard-setters that they provide additional structure via their local regulations or IFRS implementations, but they would prefer additional structure and content to come from the IFRS Standards themselves.
- (c) many stakeholders said that they would like the Board to explore ways to provide improved comparability in the IFRS primary financial statements. The exact recommendations varied, but overall there was notable consistency that:
 - (i) in general, the Board should pursue this project; and
 - (ii) in particular, the Board, should begin with the statement(s) of financial performance.

13. Stakeholders generally thought the Board should begin with the statement(s) of financial performance because:

- (a) those statements contain the least structure under current IFRS requirements; and
- (b) most alternative performance measures attempt to provide information that is based on those statements.

14. We also heard that:

- (a) stakeholders have fewer concerns about the other primary financial statements;
- (b) many users do not believe that a single measure can define an entity's performance, and they use multiple measures in their analyses; and

- (c) one regulator stated that their organisation only requires additional structure for primary financial statements because the Board does not. That regulator would prefer that the Board provide additional structure for the IFRS primary financial statements.¹

Feedback from early research using open-ended questions

15. Our early research focused on asking the following open-ended questions:

- (a) should the project:
 - (i) address inconsistencies in the structure of the statement of profit or loss; if so, then how;
 - (ii) explore requiring new subtotals, eg operating profit or profit before financing and taxes;
 - (iii) seek to define any alternative performance measures and/or provide requirements for the use of them; and
 - (iv) explore interactions between the primary financial statements? if so, please provide examples?
- (b) what problems, if any, have you identified with the structure and content of the statement of financial position or the statement of cash flows?

16. These questions were discussed at the following meetings:

- (a) The joint meeting of the Capital Markets Advisory Committee (CMAC) and the Global Preparers Forum (GPF) in June 2016 (paragraph 17);
and
- (b) The Accounting Standards Advisory Forum (ASAF) in July 2016 (paragraph 18).

¹ We performed limited desk research on whether local regulators prescribe structure or content for primary financial statements in addition to that in IAS 1, *Presentation of Financial Statements*. Our initial research suggests that a limited number of local regulators provide additional requirements.

CMAC/GPF joint meeting^{2,3}

17. CMAC/GPF members reported on the:

- (a) *statement(s) of financial performance.* Both CMAC and GPF members suggested some minimum required line items and subtotals in the statement(s) of financial performance, such as operating profit, EBIT, cost of goods sold (COGS), and gross profit. These respondents expressed a preference for principle-based descriptions rather than detailed rules, with additional details about revenue and expenses required to be provided in the notes. GPF members, however, advised the Board to ensure that new requirements do not undermine entities ability to ‘tell their own story.’ Some CMAC and GPF members suggested that Board consider developing industry-specific structure and content for the primary financial statements. Others encouraged the Board to look at jurisdictional guidance, which sometimes helps achieve comparability within jurisdictions.
- (b) *alternative performance measures.* CMAC members said these are useful and should not be prohibited. However, they suggested the quality and transparency be improved. GPF members opposed strict rules for defining ‘recurring’. They suggested that the Board should ‘legitimise’ alternative performance measures by requiring entities to provide them within the statement(s) of financial performance.
- (c) *statement of financial position.* Overall the members expressed few concerns about the statement of financial position. Both CMAC and GPF members said more disaggregation than is currently required would be helpful. A CMAC member who conducts credit analysis said that the absence of a debt definition is problematic because it is used for various types of analyses (eg for estimating Enterprise Value).

² The minutes from the joint meeting with the GPF-CMAC in June 2016 can be found in: <http://www.ifrs.org/About-us/IASB/Advisory-bodies/GPF/Documents/CMAC-GPF-June-2016-meeting-notes.pdf>.

³ We will provide an oral update on our meeting with CMAC in early November 2016 at the November Board meeting.

ASAF⁴

18. ASAF members commented on the:

- (a) *statement(s) of financial performance.* Members supported the initial focus on these statement(s), as well as additional subtotals; however, members had different views about which subtotals they would find most helpful.
- (b) *alternative performance measures.* Members stated that defining alternative performance measures would be difficult. They expressed a preference for principles for presenting them, similar to IOSCO or ESMA.
- (c) *disaggregation.* Members suggested that the Board develop more guidance on aggregation and disaggregation, and try to distinguish profit or loss from OCI in this project.
- (d) *other primary financial statements.* Members provided very limited input on the other statements.
- (e) *structured electronic reporting.* One member suggested that work in this project would facilitate structured electronic reporting; another member noted that users can easily create their own subtotals and totals if enough information is provided in the primary financial statements or the notes in a structured electronic format.

Feedback from ten possible approaches for improving the structure and content

19. The Board Advisors and staff considered the 2015 Agenda Consultation feedback⁵ and other input from stakeholders to develop a list of ten possible approaches to improving the structure and content of the primary financial statements. We

⁴ The minutes from the ASAF meeting in July 2016 can be found in: <http://www.ifrs.org/About-us/IASB/Advisory-bodies/ASAF/Documents/ASAF-Summary-July.pdf>.

⁵ Materials related to the 2015 Agenda Consultation may be found at <http://www.ifrs.org/Current-Projects/IASB-Projects/IASB-agenda-consultation/2015-agenda-consultation/Pages/default.aspx>.

asked for feedback on these approaches in a series of meetings with users of financial statements.

20. The presentation of these suggested approaches to users of financial statements provided structure for some of our discussions about the scope of the project. The suggested approaches were not presented as solutions researched in detail. In some settings, due to time limitations, we were only able to present a subset of the approaches—in such cases, we presented approaches for improving the statement(s) of financial performance because most stakeholders said this should be our initial focus.
21. We asked users whether we should explore the following possible approaches to improving communication in the primary financial statements:

- (a) improvements to the statement(s) of financial performance (paragraphs 23-29);
- (b) improvements that apply across the primary financial statements (paragraphs 30-33); and
- (c) improvements that would affect segment reporting (paragraphs 34-35).

22. AP 21E *Ten possible approaches presented during outreach* reproduces the materials used to describe the possible approaches to improve the structure and content of the primary financial statements. These materials were presented in our outreach with users of financial statements and include illustrations of the suggested changes to the primary financial statements.

Improvements to the statement(s) of financial performance

	10 approaches	Details of each approach	IFRS status quo	Problems to solve
1	<u>Require</u> an earnings before interest and taxes (EBIT)-type subtotal	Requires a definition of financing activities, which could be principle-based and supplemented with specific requirements (eg financing includes interest cost of defined benefit pensions).	<u>Optional</u> presentation	<p>Many users need this subtotal as a consistent starting point for their analyses.</p> <p>Many entities present an EBIT-type subtotal but it varies and is not comparable.</p> <p>Presentation of financing income and expense varies, even among peers (eg interest cost of defined benefit pensions).</p>
2	<u>Require</u> an operating profit subtotal	Further separate the results of operating activities from those that are non-operating (and also are not financing); requires a definition of operating which could be achieved via a formal definition, a description, or a residual of what is left after financing activities has been defined; could be supplemented by specific requirements—eg	<u>Optional</u> presentation	<p>Users need to understand operating results.</p> <p>Many entities present an operating profit subtotal but it is not comparable.</p> <p>Distinction between operating and non-operating income/expense varies, even among peers (eg results of associates).</p>

	10 approaches	Details of each approach	IFRS status quo	Problems to solve
		present results of associates outside operating activities.		
3	<u>Require</u> a 'recurring operating profit' subtotal	A 'management view' subtotal to allow entities to 'tell their own story' and conveys information about persistency of earnings; requires discipline and transparency about the components and adjustments to the proposed IFRS operating profit subtotal; could be supplemented by required disaggregation and reconciliation, 5-10 year historical record of adjustments and explanation of the adjustments.	<u>Optional</u> presentation	<p>Users want information about the persistence or sustainability of an entity's financial performance.</p> <p>Items classified as non-recurring vary and are not transparent.</p> <p>Adjustments may not be consistent period to period and some non-recurring items occur regularly.</p>
4	<u>Require</u> a new category—'profit after specified long-term revaluations' that would include those OCI items that are currently not recycled—to <u>reduce the need</u> to present items of income or expense in Other Comprehensive Income (OCI)	New presentation attempts to make items currently in OCI more understandable by introducing a separate section to the statement(s) of financial performance for OCI items that are not recycled.	OCI items that will be recycled must be presented within OCI separately from those that will not.	Many users do not understand what is currently presented in OCI and do not include OCI items in their analysis. Improving the presentation of items in OCI may make OCI more understandable.

	10 approaches	Details of each approach	IFRS status quo	Problems to solve
5	<u>Require</u> new alternative earnings per share	Two additional EPS amounts—‘recurring EPS’ and ‘EPS for profit after specified long-term revaluations’.	Only basic and diluted EPS are required	Many users require EPS for their forecasts, or their buy, sell, or hold recommendations. Many entities provide their own EPS outside the audited financial statements, and these often lack comparability and transparency.

Feedback

23. Many users expressed strong support for requiring an EBIT-type subtotal. Many use this subtotal as the starting point for developing estimates of free cash flow to which they then apply a multiple for valuation purposes. EBIT also provides a first step toward an understanding of the results of operating activities. They suggested that the Board develop a relatively ‘strict’ definition of financing activities, which accounts for industry-specific variation so that this starting point figure is as comparable across entities as possible. For example, most users characterise interest costs related to defined benefit pensions as a financing activity.
24. Many users favoured a required operating profit subtotal. These users consider operating activities as the primary input to their valuation models. For example, they apply a different multiple to the results of operating activities than to non-operating or financing activities.
25. Many users who commented on this approach wanted some type of ‘management view’ of operating profit, coupled with transparent details of its components, and reconciliation to relevant IFRS-defined subtotals or totals. These users find management’s story about its performance relevant especially for assessing management’s stewardship of the entity’s resources. Users were also interested in assessing the sustainability of the entity’s operating activities, and many welcomed a recurring operating profit subtotal. They explained that how management defines ‘recurring’ can be problematic because many activities that management classifies as non-recurring occur year after year. As a result, users would like more discipline on the use of the term, along with improved communication about what is included in the non-recurring classification, and why management has characterised items as such.
26. A few users suggested that the Board should not add any more than these three proposed subtotals because of the risk of making the statement(s) of financial performance too cluttered. A few users noted that they do not need both EBIT and operating profit, and that the Board could limit itself to only requiring one of the two. The respondents reached no consensus on whether to require EBIT or

operating profit, but some users said they could calculate their own additional subtotals if needed.

27. In general users supported the introduction of the subtotals in points 1–3, along with adequate transparency about what they contain. Some noted that requiring a recurring operating profit subtotal would move alternative performance measures that are sometimes presented outside the IFRS financial statements into the statements where additional disclosures would enhance understandability and an external audit would increase credibility.
28. Many users were not certain that the possible approach to the presentation of OCI would provide additional relevant information for their analyses. Except in a few cases, users broadly saw OCI as a black box, or ‘dumping ground’, and did not analyse OCI items in detail. Those users who do use OCI in their analysis said they found needed information in the current presentation; these users either followed financial institutions or required only the OCI information about cash flow hedges.
29. Many users expressed some support for introducing alternative EPS reporting into IFRS financial statements. They stated that alternative EPS measures are often reported outside the audited financial statements without adequate transparency. Some users thought that requiring a ‘management view’ EPS within the financial statements would bring greater credibility to these EPS amounts because they would be subject to an external audit. Preparers supported the ‘management view’ because this would allow them to ‘tell their own story’ within the primary financial statements. Users expressed little support for the alternative EPS based on ‘profit after specified long-term revaluations’ because either they did not understand or need the subtotal itself. Credit analysts stated that they generally do not use EPS and so these additional items were not relevant for their analysis.

Improvements across the primary financial statements

	10 approaches	Details of each approach	IFRS status quo	Problem to solve
6	<u>Revise</u> the definition of operating cash flows	Eliminate options for interest and dividends; require consistency between how an entity defines and presents its operating profit and its cash flows from operations.	Classification into operating for the statement(s) of performance is not required to match that of the statement of cash flows; classification of interest and dividends is optional.	Some users require the operating classifications to be consistent across the financial statements for their ratio analyses, and comparable among entities. Many users also need to understand the cash conversion cycle.
7	Align presentation of subtotals and totals among the primary financial statements	Require more alignment between subtotals and totals across all financial statements (but not the detailed cohesiveness in the prior Financial Statements Presentation project).	Not required.	Users who perform a modified DuPont ⁶ or similar ratio analyses need the classification of activities to be consistent across the financial statements.

⁶DuPont analysis refers to a formula developed by DuPont Corporation in the 1920s to analyse its own performance (see <http://www.dupont.com/corporate-functions/our-company/dupont-history.html>). The basic formula is ROE= Net Margin x Asset Turnover x Leverage. Some investors use a modified approach which separates operating results from financing decisions—eg Asset Turnover=Sales/Operating assets.

8	Provide <u>illustrative examples</u> of the primary financial statements	For a limited number of industries, eg corporates, banking, insurance, and real estate investment entities; requires specifying core required line items and subtotals for these industries.	Non-authoritative guidance in IAS 1.	Many users need to take into account industry variation for their analyses. Financial statements are not comparable even among peers.
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Feedback

30. Many users supported the approach to remove the options for reporting dividends and interest in the statement of cash flows. They said the variation among entities is often not meaningful and only makes comparative analyses difficult.
31. Many users expressed strong support for aligning the definition of operating activities across the statement(s) of performance and the statement of cash flows. Such users would like to understand an entity's cash conversion cycle and say that current IFRS presentation requirements do not facilitate this.
32. Those users who perform modified DuPont-type analyses or calculate specific types of ratios such as return on net operating assets (RNOA) strongly support requiring improved alignment across all financial statements. Users who employ other analysis or valuation methods did not find this type of alignment necessary.
33. Some users who are industry specialists strongly supported the suggestion to provide illustrative examples of primary financial statements tailored to a limited number of specific industries. This approach and the example financial statements that we provided in the presentation materials for banks and property investment entities were consistent with how such users design their own analysis models. For example, we heard that the typical types of industry models generally were limited to: corporates, banks, insurance, and real estate entities. Several users stated that these examples should be a required, rather than an optional format.

Improvements affecting segment reporting

	10 approaches	Details of each approach	IFRS status quo	Problem to solve
9	<u>Extend</u> segment reporting line items and <u>align</u> with revised financial statements	Require specific line items and subtotals which align the revised primary financial statements.	Required presentation is limited to items that management regularly review.	Line items and subtotals are often so limited or aggregated that users cannot perform appropriate analyses. Entities may use different definitions for the segment items than their related financial statement items, contributing to a lack of comparability.
10	<u>Eliminate</u> discontinued operations line item from statement(s) of financial performance; <u>require</u> presentation as a segment(s)	Require separate presentation in the segment note; income, expenses and impairment items would be reported gross.	Related income, expense and any impairment charges are presented as a single line item net of tax.	Many users want to understand discontinued operations and the ramifications for future cash flows. The level of aggregation in current requirements makes this difficult to understand.

Feedback

34. Many users expressed support for requiring specific line items, subtotals, and totals in the segment disclosures.⁷ Many users attempt to understand the reported segments in some detail, and find the current requirements to be generally inadequate. They stated that the current requirements also result in a considerable variation even among peer entities, making comparative analysis difficult.
35. We noted support from many users for the suggestion that the single line item for discontinued operations in the statement(s) of financial reporting be replaced with more detailed line items in the segment note to the financial statements. These users thought this change would lead to more information about the discontinued operations.

Feedback from other outreach

36. In addition to the outreach described above, we:
- (a) discussed a case study on the definition of operating profit at the September 2016 World Standards-Setters meeting (paragraphs 37-39);
 - (b) hosted a presentation by the UK Financial Reporting Council of its draft discussion paper on the statement of cash flows to ASAF and the CMAC/GPF joint meeting (paragraphs 40-41);
 - (c) discussed the implications of structured electronic reporting (paragraphs 42-44); and
 - (d) discussed issues related to flexibility, comparability, and alternative performance measures in the context of the primary financial statements at the Board's October 2016 Advisory Council meeting (paragraphs 45-48).

⁷ The Board discussed similar matters in its October 2016 meeting in the context of possible amendments to IFRS 8, *Operating Segments* (Agenda Paper 27). The Board tentatively agreed to amend IFRS 8 without reopening the management approach that currently underlies IFRS 8 including its disclosure requirements.

Case study — defining operating profit

37. At the September 2016 World Standards-Setters meeting⁸, we asked members to identify characteristics of operating profit in a case study, and then classify a list of transactions or events that would require recognition in the statement(s) of financial performance as above or below ‘operating profit’.
38. We observed the following:
- (a) many attendees found identifying the characteristics of operating profit challenging—many described the characteristics of operating profit using the following notions:
 - (i) core to the entity’s main business;
 - (ii) under management’s direct control; or
 - (iii) recurring/persistent;
 - (b) the attendees defined operating profit using one of the following two approaches:
 - (i) as an ‘all-inclusive’ amount, similar to EBIT, whereby virtually all the transactions or events were considered operating; or
 - (ii) according to one of the descriptions presented in paragraph 38(a).
39. Members were asked a series of polling questions:
- (a) should the Board include consideration of an operating profit and / or similar subtotals in the scope of the Primary Financial Statements project?
 - (i) yes (75%)
 - (ii) no (25%)
 - (b) if the Board decides to explore an operating profit subtotal, how do you think an operating profit subtotal might be best described?
 - (i) with a strict definition (11%); or

⁸ The materials for the September 2016 World Standards-Setters meeting can be found at <http://www.ifrs.org/Meetings/Pages/World-Standard-setters-Meeting-September-2016.aspx>.

- (ii) with a principle-based description subject to management judgement considering the business model and supported by examples (80%); or
 - (iii) free choice for management based on how they wish to communicate performance to investors (9%).
- (c) which of the following possible objectives of operating profit do you think would provide users of financial statements with the most useful information?
- (i) inclusive performance measure (19%);
 - (ii) business model/ core performance measure (56%); or
 - (iii) enhancing predictive value (25%).
- (d) which of the following possible bases for classification of income and expenses in determining operating profit do you think would provide users of financial statements with the *most useful information*?
- (i) operations vs. financing or investing (24%);
 - (ii) core business vs. non-core business (34%);
 - (iii) recurring items vs. non-recurring items (20%);
 - (iv) inside management control vs. outside management control (15%); or
 - (v) none of the above (7%).
- (e) if the Board were to require an operating profit subtotal, how should the Board present the non-recurring or other special items with regard to the operating profit subtotal?
- (i) include them in the subtotal (25%); or
 - (ii) exclude them from it (13%); or
 - (iii) require two subtotals before and after the non-recurring or other special items (62%).

UK FRC's research on the statement of cash flows⁹

40. From June to July 2016, the UK FRC sought the views of CMAC, GPF and ASAF members on the suggested improvements to the statement of cash flows included in a draft UK FRC Discussion Paper (FRC draft).¹⁰
41. The paper generated debate, and the FRC draft as published has been revised to take account of some of the following comments:
- (a) *change the classification of acquisition of property plant and equity to operating activities.* Many CMAC and GPF members disagreed with this suggestion. One ASAF member who commented on this suggestion also disagreed with the proposed classification.
 - (b) *eliminate classification options for dividends and interest.* Many CMAC, GPF and ASAF members agreed with this suggestion.
 - (c) *require the statement to report inflows and outflows of cash, rather than cash and cash equivalents, and add a separate section of the statement to report cash flows relating to the management of liquid resources.* Many CMAC and GPF members disagreed with this suggestion. Some members said the reporting of cash flows should be expanded, instead of being narrowed, to include new methods of payment (ie cryptocurrencies). ASAF members also had mixed views. Some pointed out that analysts have their own views on liquidity and would not support replacing the statement of cash flows with a statement of liquidity.
 - (d) *require reconciliation of operating cash flows to an operating profit subtotal in the statement(s) of financial performance.* Generally, members of the CMAC, GPF and ASAF groups supported this suggestion. However, some noted that using operating profit as the

⁹ The minutes from the joint meeting with the GPF-CMAC in June 2016 can be found in: <http://www.ifrs.org/About-us/IASB/Advisory-bodies/GPF/Documents/CMAC-GPF-June-2016-meeting-notes.pdf>. The minutes from the ASAF meeting in July 2016 can be found in: <http://www.ifrs.org/About-us/IASB/Advisory-bodies/ASAF/Documents/ASAF-Summary-July.pdf>

¹⁰ A final version of this paper was published by the FRC in October 2016 (see <https://www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/Discussion-Paper-Improving-the-Statement-of-Cash-File.pdf>).

starting point for the reconciliation would be challenging, as this subtotal has neither been defined nor is required by IFRS Standards. For some CMAC and GPF members the subtotal on earnings before interest and tax (EBIT) or net profit could provide a better starting point.

- (e) *make the direct method neither required nor prohibited.* Members of the CMAC, GPF and ASAF groups had mixed views on this suggestion.

Implications of structured electronic reporting

42. We met with representatives of a data aggregator who gave the following feedback on the company's primary financial statement delivery to clients:
- (a) aggregators use templates to standardise the primary financial statements. The representatives stated that companies that use US and Japanese GAAP present relatively standardised financial statements. However, IFRS financial statements are quite diverse and fragmented by country and regions.
 - (b) non-recurring items can be presented in various places in entities' financial statements. For example, some entities combine them with discontinued operations.
 - (c) they provide financial statement templates for a limited number of industries:
 - (i) non-financial institutions;
 - (ii) banks;
 - (iii) insurance companies;
 - (iv) other financial institutions;
 - (v) property investment entities; and
 - (vi) utilities.
43. In their view, if the structure of primary financial statements were more standardised, then they would be able to consume the information more easily.

The representatives also suggested that the transparency of non-recurring items in IFRS financial statements be enhanced.

44. The staff and Board Advisors also participated in a session on this project at the October 2016 face-to-face meeting of the Board's IFRS Taxonomy Consultative Group (ITCG).¹¹ Most participants said additional structure, granularity and format standardisation in the primary financial statements would increase comparability and data quality, thereby facilitating structured electronic reporting. However, some other participants questioned the need for (comparable) subtotals as long as sufficient disaggregation is provided, allowing users to construct their own measures.

Advisory Council¹²

45. The Advisory Council members were asked whether:
- (a) there is a conflict between allowing entities the flexibility to tell their story and providing users with comparable information; and
 - (b) the use of alternative performance measures is a problem.
46. The Advisory Council members were also asked whether the Board should address any of the conflicts or problems they identified.
47. The Advisory Council members expressed the view that there is some tension between flexibility and comparability. Members acknowledged that users of financial statements require more comparability in the primary financial statements. There was general support for the Board to improve comparability by including more guidance in IAS 1 on subtotals such as EBIT. However, members cautioned against making any such guidance too prescriptive. They also thought the Board should be cautious about providing prescriptive guidance concerning recurring and non-recurring items. Members expressed mixed views about the suggestion that the Board should develop industry-specific templates for the primary financial statements. Some members supported the suggestion as long as

¹¹ The materials for the October 2016 ITCG meeting can be found at <http://www.ifrs.org/Meetings/Pages/ITCG-Face-to-Face-Meeting---October-2016.aspx>.

¹² The materials related to October 2016 meeting of the Advisory Council can be found at <http://www.ifrs.org/Meetings/Pages/IFRS-Advisory-Council-October-2016.aspx>.

the templates were not too detailed or prescriptive. Others suggested it would be difficult to reach a consensus on the format of any such templates.

48. The Advisory Council members observed that alternative performance measures are useful to investors, though they are not always presented fairly. Some members suggested that the Board could develop guidance on the use of some commonly-used alternative performance measures; however, others expressed the view that alternative performance measures are not necessarily the Board's responsibility, except for providing more guidance on subtotals. Members also stressed the importance of working with regulators in this area.

Other suggestions from stakeholders

Additional line items

49. Many users mentioned that additional line items and subtotals should be required in the statement(s) of performance. Users' most commonly-suggested items included cost of sales, and costs related to selling, general, and administrative. A few users requested that capital expenditures in the statement of cash flows be required to be separated into growth and maintenance capital expenditures.
50. Investors from one region suggested that the Board should set minimum line items for the primary financial statements. They noted that some national securities regulators set such minimum line items for their local GAAP, but may not necessary set such minimum items for IFRS financial statements. These investors think that such minimum line items for IFRS financial statements should be set by the Board to improve global comparability of IFRS financial statements.

Consistent starting point in the statement of cash flows

51. Some users noted that current IFRS requirements do not stipulate a particular starting point for the indirect method operating cash flows subtotal; in their view, this creates variation that is not meaningful and hinders comparisons and analysis. They observed that if the starting point were to be a subtotal other than net income, then the Board would need to prescribe and define subtotals such as EBIT or operating profit.

Additional disaggregation and transparency

52. A common theme mentioned by virtually every user was the need for improved disaggregation and transparency about individual line items or subtotals. In general, users suggested that their requirements for comparability would be assisted by more details about the components of line items and subtotals. They all stated that this could be achieved via the notes, and did not need to be confined to changes in the primary financial statements. In addition to the general observation about the need for more disaggregation, investors from Japan suggested that the disaggregation of the statement of financial position is not sufficient.

Improved information about articulation

53. Another suggestion we heard was that, even if a strong form of ‘cohesiveness’¹³ was not pursued in the project, then better clarity about how the primary financial statements articulate would be worthwhile. The practical example provided in one discussion was that the Board might ensure that users of financial statements can understand how the statement of cash flows line items are derived from the other primary financial statements. For example, under current requirements, the changes in working capital amounts found in the operating section of the statement of cash flows does not articulate to the changes in the beginning and ending balance amounts for the corresponding statement of financial position line items or subtotals.

Question for the Board

Does the Board have any questions or comments on the summary presented in this paper?

¹³ The prior Financial Statement Presentation project developed a concept of cohesiveness which, as a general concept, was supported by some stakeholders. This is because presenting information cohesively, ie structured in a consistent way across financial statements, highlights relationships between items of information, making the statements as a whole more understandable. However, the way the prior Financial Statements Presentation project proposed applying cohesiveness in conjunction with a disaggregation principle was more controversial (ie a ‘strong’ form of cohesiveness implied presenting structure at a disaggregated line item level across all primary financial statements). See Board paper AP 11A from the December 2014 Board meeting (<http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/December/AP11A-Disclosure-Initiative.pdf>).