

Primary Financial Statements



World
Standard-setters
Conference
2019

#WSS_2019

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Objective of this session

2



Help you prepare for the forthcoming consultation by:

- providing an overview of the project
- explaining the project next steps
- providing an opportunity for Q&A



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Before we begin...

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- We will ask you to participate in live polls on the sli.do platform.
- Insert <https://www.sli.do/> in the browser of your electronic device i.e. mobile phone, tablet or laptop. Then select the correct session from the dropdown menu.



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Warm-up poll

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In your view, how important is improving performance reporting?

- A.** Improvements to performance reporting are essential to improving quality of financial reporting
- B.** It would be good to make some improvements
- C.** Performance reporting needs no improvement



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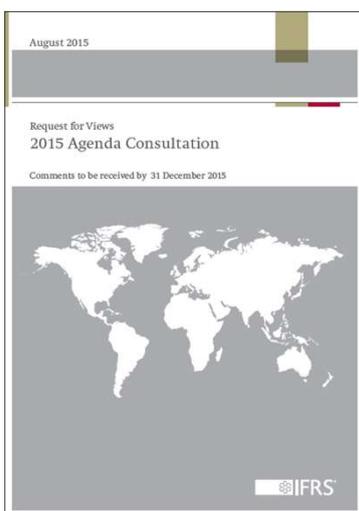
Introduction



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2015 Agenda Consultation

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“The main priority for the Board over the next period is to address performance reporting”

Corporate Reporting Users' Forum, January 2016

“We regard this as a priority and urge the Board to place it on the near term standards-level agenda”

CFA Institute, February 2016

“This project stood out as one of the most important topics for investors”

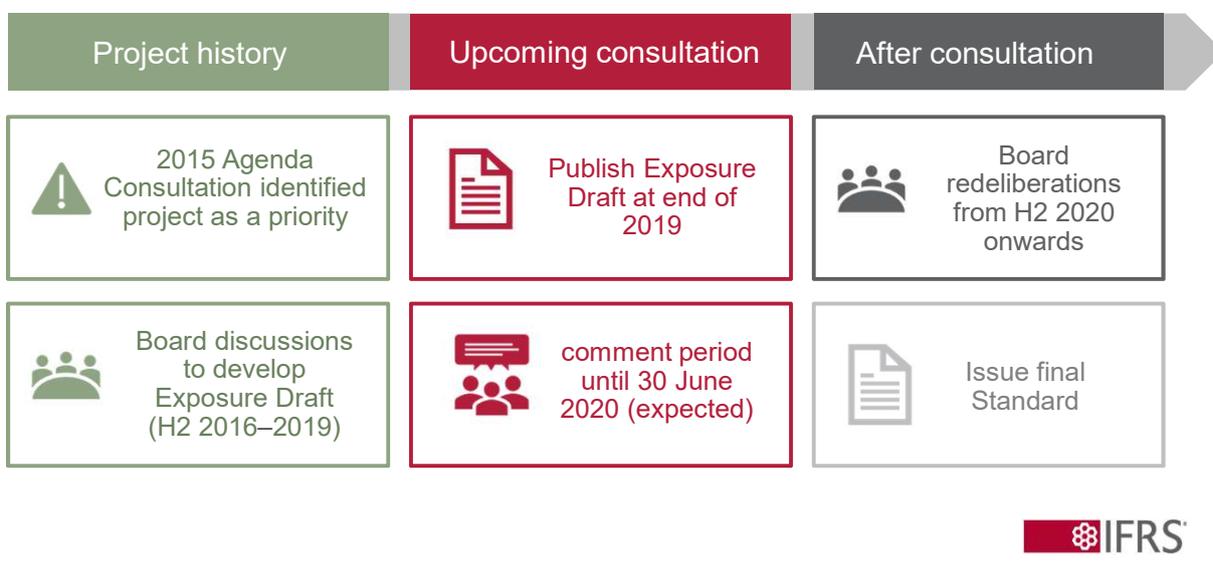
Paper 21, IASB meeting, April 2016



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Project timeline

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Polling survey 1

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How can we help with outreach in your jurisdiction?

- A. providing presentation materials
- B. making IFRS Foundation staff or Board members available to participate in outreach
- C. organising a meeting with IFRS Foundation staff to discuss outreach planning

Is there any other help we could provide with outreach?
(open question)

IFRS

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Overview of the key proposals in the ED

Key proposals in the ED & expected benefits

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Key proposals	Key benefits expected	Slide
1 Introduce defined subtotals and categories in the statement of profit or loss	Provide additional relevant information and a structure that is more comparable between entities	11–16
2 Introduce principles and guidance for aggregation and disaggregation	Provide additional relevant information Avoid obscuring material information	17
3 Amend requirements for analysis of operating expenses	Provide additional relevant information	18
4 Introduce disclosures on unusual items	Provide additional relevant information, in a single location	19
5 Introduce disclosures on Management Performance Measures (MPMs)	Provide transparency & discipline in use of such measures, in a single location	20–21
6 Introduce targeted improvements to the statement of cash flows	Improve comparability between entities	22

① Operating profit—current practice

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Many users use operating profit in their analysis; for assessing margins and for forecasting future cash flows

Many companies present operating profit (and variants) as a subtotal, however it is **calculated inconsistently** across companies.

Company X	Company Y
Revenue	Revenue
Net interest on defined benefit liabilities	Share of profit of associates and JVs
Income from investments in financial assets	
Operating profit	Operating profit
Share of profit of associates and JVs	Income from investments in financial assets
	Net interest on defined benefit liabilities
Profit	Profit



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① Operating profit—proposed approach

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Operating profit = profit from continuing operations before tax and before...

Investing

(defined by the Board)

Financing

(defined by the Board)

Share of profit of integral associates and joint ventures

- Though defined as a **residual**, the Board expects operating profit to capture income and expense from the entity's **main business activities**.
- Whether an item is '**unusual**' does **not** affect whether it is included in operating profit.
- **Associates and JVs are below operating profit**, so financing or tax income and expenses from such entities are not included in operating profit and do not distort margin calculations.

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① Investing & financing

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	Investing	Financing
Objective 	Communicate returns from investments that are generated individually and largely independently of other resources held by an entity	Communicate income and expenses from assets and liabilities related to an entity's financing
Includes items such as:	<ul style="list-style-type: none"> income and expenses from financial assets, other than cash and cash equivalents the share of profit or loss of non-integral associates and joint ventures income and expenses on investment property 	<ul style="list-style-type: none"> income and expenses from cash and cash equivalents income and expenses on liabilities arising from financing activities unwinding of discount on pensions and provisions

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① Introducing required and defined subtotals*

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Revenue	16,500	Operating	
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 JVs and associates	500		Integral associates and JVs
Operating profit and share of profit or loss of integral associates and JVs	3,500		
Changes in the fair value of financial assets	250	Investing	
Dividend income	50		
Share of profit of non-integral JVs and associates	100	Financing	
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)		
Profit before tax	2,900		

*Proposal for general corporates

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1 Definitions take into account different business activities

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For example for a bank whose main business activities include investing, providing financing to customers and other services:

Operating profit includes:

- Interest expense
- Income and expenses from investments made in the course of the entity's main business activity

No profit before financing and tax subtotal is presented

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)
Operating profit	X
Share of profit of integral associates and JVs	X
Operating profit and share of profit of integral associates and JVs	X
Share of profit of non-integral associates and joint ventures	X
Income from investments outside main business activities	X
Unwinding of discount on pension liabilities	(X)
Profit before tax	X

*Interest revenue calculated using the effective interest method would be presented separately.

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Presentation of associates and joint ventures

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Preparer A

My associates and JVs are a part of my main business, so I want to include my share of their results in my key performance measures.

The share of associates' and joint ventures' profit is after financing and after tax so I want to analyse them separately.


User B

Proposals

Separately present 'integral' and 'non-integral' associates and joint ventures in statements of financial performance and cash flows.

Use definition of income/expenses from investments to classify as 'integral' or 'non-integral': generate returns largely independently of other resources.

Definition supplemented with indicators for determining whether a joint venture or associate is 'integral' or 'non-integral'.

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2 Aggregation & disaggregation

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Guidance on process



identify assets, liabilities, equity, income and expenses that arise from individual transactions or other events



classify into groups based on shared characteristics, resulting in line items in the primary financial statements that share at least one characteristic



separate based on further characteristics, resulting in the separate disclosure of material items in the notes

Guidance on aggregations of dissimilar items

- using a non-descriptive label such as 'other' would not faithfully represent those items without additional information;
- consider whether such items can be disaggregated;
- consider whether such items may be described in a way that faithfully represents the dissimilar items; or
- provide information in the notes about the composition of the aggregation.



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3 Analysis of operating expenses

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Statement of profit or loss

Present analysis by nature or by function, whichever provides the most useful information

- **Not a free choice**—the Board proposes to provide a set of factors for entities to consider when making this assessment
- Would **remove option** to present analysis of expenses in the **notes only**

Notes

Disclose analysis by nature, if statement of profit or loss presents analysis by function

- **Analysis of total operating expenses**—no requirement to analyse each functional line item by nature.



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4 Unusual items

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Definition



Unusual income and expenses are those with **limited predictive value**. Income and expenses have limited predictive value when it is **reasonable to expect** that income or expenses that are **similar in type and amount** will **not arise** for several future annual reporting periods.

Income and expenses from the **recurring remeasurement** of items measured at a current value would **not** normally be classified as **unusual**

Disclosures

Amount & narrative description

Disaggregated by:

- line items presented in statement of profit or loss; and
- line items disclosed in analysis of operating expenses by nature, if the entity analyses expenses by function in the statement of profit or loss

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5 Management performance measures (MPMs)

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Disclosure in the notes of subtotals of income and expenses that:

Are used in public communications with users of financial statements, **outside financial statements**

Complement totals or subtotals included in IFRS Standards

Communicate **management's view** of an aspect of an entity's financial performance

Accompanied by disclosures in a **single note to enhance transparency**, including a **reconciliation** to a measure included in IFRS Standards —see next slide

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5 MPM reconciliation

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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 measures similar to 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.



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6 Statement of cash flows

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Proposals

Single starting point for the indirect reconciliation: **Operating profit**

Removal of classification options for interest and dividends

Cash flow item	IAS 7 classification	Proposal for non-financial entities	Proposal for financial entities
Interest paid	Operating or financing	Financing	Operating or financing*
Dividends paid	Operating or financing	Financing	Financing
Interest received	Operating or investing	Investing	Operating, investing or financing*
Dividends received	Operating or investing	Investing	Operating or investing* (investing for equity-accounted investments)

* Depends on classification of related income/expenses in P&L



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Recap—key proposals and expected benefits

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Key proposals	Key benefits expected
1 Introduce defined subtotals and categories in the statement of profit or loss	Provide additional relevant information and a structure that is more comparable between entities
2 Introduce principles and guidance for aggregation and disaggregation	Provide additional relevant information Avoid obscuring material information
3 Amend requirements for analysis of operating expenses	Provide additional relevant information
4 Introduce disclosures on unusual items	Provide additional relevant information, in a single location
5 Introduce disclosures on Management Performance Measures (MPMs)	Provide transparency & discipline in use of such measures, in a single location
6 Introduce targeted improvements to the statement of cash flows	Improve comparability between entities

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The Exposure Draft

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New IFRS Standard 	Proposed new requirements on the structure and content of financial statements +	Related requirements brought forward from IAS 1 with limited wording changes
Amendments to other Standards	<ul style="list-style-type: none"> IAS 7—statement of cash flows IAS 33—EPS IAS 34—interim reporting IFRS 12—associates and JVs 	Other requirements of IAS 1 —moved to IAS 8 and IFRS 7

 **Withdraw IAS 1** 

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Polling survey 2 – question 1

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Which proposals do you think will be well received in your jurisdiction? (select all that apply)

- A. operating and financing subtotals
- B. integral and non-integral associates and joint ventures
- C. unusual income and expenses
- D. disaggregation including analysis of expenses by nature and by function
- E. management performance measures



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Polling survey 2 – questions 2 and 3

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Which proposals do you think will be contentious in your jurisdiction? (select all that apply)

- A. operating and financing subtotals
- B. integral and non-integral associates and joint ventures
- C. unusual income and expenses
- D. disaggregation incl. analysis of expenses by nature and by function
- E. management performance measures

Please share any other thoughts on feedback expected in your jurisdiction (open question)

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Get involved

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