STAFF PAPER

October 2013

IASB Meeting

Project	**Disclosure Initiative**		
Paper topic	Amendments to IAS 1: totals and subtotals		
CONTACT(S)	Kristy Robinson	krobinson@ifrs.org	+44 (0)20 7246 6933
	Amy Bannister	abannister@ifrs.org	+44 (0)20 7246 6947

Introduction

1. This paper discusses whether:

   (a) amendments should be made to IAS 1 *Presentation of Financial Statements* to clarify the use of additional subtotals/totals of IFRS recognised amounts in the financial statements; and

   (b) commonly reported totals or subtotals of IFRS recognised amounts, such as EBIT or EBITDA, should be acknowledged in IAS 1.

2. The topic of subtotals/totals was a potential amendment identified in the Discussion Forum: *Financial Reporting Disclosure Feedback Statement* (the 'Feedback Statement').

3. This paper discusses this topic as part of the Amendments to IAS 1 project under the Disclosure Initiative.

Background

4. The Feedback Statement said the following on 'totals and subtotals':

> Among the potential issues are whether subtotals of IFRS numbers such as EBIT (earnings before interest and tax) and EBITDA (earnings before interest, tax, depreciation and amortisation) should be acknowledged in IAS 1.

Some preparers have told the IASB that they would like to be able to include these subtotals on the face of the income statement, but their auditors discourage them from doing so.

Views heard

5. As noted in the Feedback Statement, there is a perception by some that IFRS prevents them from presenting or disclosing additional totals and subtotals.

6. At the joint CMAC/GPF meeting held in June 2013, we heard contrasting views about totals and subtotals. On the one hand some preparers and users wanted management to be able to exercise judgement in determining what subtotals/totals to provide. Allowing an entity to use such judgement provides relevant information about the nature of the subtotal/total and about management's view of an entity. As a result, those that wanted management to exercise judgement thought that management would need to disclose what amounts made up those additional subtotals and totals.

7. However, others preferred the consistency, both across entities and within an entity year-on-year, that subtotals and totals defined and required by IFRS would provide. However, there was a general thought that it would be difficult to define these subtotals and totals in IFRS.

8. It was noted by some members that if a subtotal or total is reconcilable to IFRS amounts (ie drawn from the financial statements), it should be allowed to be in the financial statements. It should not be labelled as a non-GAAP financial measure[1] because this has negative connotations.

[1] Some jurisdictions have regulatory guidance on "non-GAAP financial measures" to ensure that such measures do not mislead investors. For example see the Canadian Securities Administrator's Staff Notice 52-306 (Revised) "Non-GAAP Financial Measures and Additional GAAP Measures". This paper does not seek to address the disclosure of "non-GAAP financial measures" because these are outside of the scope of IFRS.

Staff analysis

IFRS requirements

9. Paragraphs 55 and 85 of IAS 1 require an entity to present additional line items, headings and subtotals in the statement of financial position/statement(s) of profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity's financial position/financial performance.

10. Paragraph 112 (c) of IAS 1 prescribes that the notes [to the financial statements] shall provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

11. We also note that paragraphs 15 and 17 of IAS 1 would require the presentation or disclosure of a subtotal/total to be a fair presentation of the amounts included in that subtotal/total. Specifically, the subtotal or total should be a faithful representation of the group of items that constitute it and should be presented in a manner that provides relevant, reliable [verifiable], comparable and understandable information.

12. Relevant extracts from IAS 1 are included in Appendix A.

Should amendments be made to IAS 1 to clarify that additional subtotals/total can be presented/disclosed in the financial statements?

No amendments

13. One possible approach to the issue about subtotals and totals described in the Feedback Statement, and referred to in paragraph 4 above, is to not make any amendment to IAS 1. It is arguable that the provisions of IAS 1 are currently sufficient to require an entity to disclose additional subtotals or totals (including EBIT or EBITDA) in cases in which the entity determines that the subtotal or total provides relevant information and if the manner of its presentation or disclosure is a fair presentation of what it represents.

14. It could therefore be held there is no need for IAS 1 to explicitly 'permit' entities to present or disclose additional subtotals or totals of IFRS recognised amounts, such as EBIT or EBITDA, because current guidance is sufficient.

Guidance in IAS 1 about subtotals/totals

15. However, as indicated in paragraph 4 above, we have been told that some preparers are being discouraged by their auditors from presenting some subtotals/totals of IFRS recognised amounts such as EBIT and EBITDA on the face of the their primary financial statements. Consequently, there is a perception that IAS 1 prevents some totals and subtotals from being presented or otherwise disclosed.

16. We think some of the issues about presenting or disclosing subtotals/totals, such as EBIT or EBITDA, in an entity's financial statements relate to a concern that the subtotal or total is in some way misleading, confusing or otherwise difficult to understand. Put another way, there are concerns that the manner of presenting or disclosing some subtotals/totals may not be a fair presentation; for example:

    (a) The label given to the subtotal/total is not comparable. For example, paragraph BC56 of IAS 1 (see Appendix A of this paper) states that if an entity discloses "results from operating activities" it would be inappropriate to exclude items clearly related to operations, such as inventory write-downs and restructuring and relocation expenses.

    (b) The subtotal or total is not comparable between periods because is not consistently calculated. For example, the entity changes the categories (ie line items or other material groupings of recognised amounts) that constitute the subtotal/total so that it is not possible to make a true comparison between periods.

    (c) The way in which the subtotal/total is presented gives it undue prominence over other subtotals/totals specified in IAS 1. It may thereby potentially obscure the information provided by those specified subtotals/totals that is required to be presented on the face of the primary financial statements; or

    (d) it is not clear (understandable) what IFRS recognised amounts have been used to calculate the subtotal/total.

17. It may also be the case that entities are discouraged from presenting or disclosing a subtotal/total because of a misconception that commonly used measures, such as EBIT and EBITDA calculated using IFRS recognised amounts, cannot be

presented or disclosed in the financial statements because they are not specifically permitted by IFRS and are therefore “non-GAAP financial measures”.

18. On the basis of IAS 1 paragraphs 55, 85 and 112 (c), we are of the view that subtotals/totals of IFRS recognised amounts are eligible to be fairly presented or disclosed in financial statements, although they are not specified in IAS 1. Many subtotals/totals of IFRS recognised amounts that are not specified in IFRS, such as operating profit, gross margin and net debt are commonly presented on the face of primary financial statements or disclosed in the notes. In addition, IAS 1 Basis for Conclusions paragraph 56 supports the view that an entity may disclose a subtotal or total, even though this term is not defined in IFRS eg “results from operating activities”.

19. However, to address the issue that some preparers are being discouraged from presenting certain subtotals and totals of IFRS recognised amounts in their financial statements (see paragraph 4 of this paper), another approach is to make clarifying amendments to IAS 1. These amendments would clarify that subtotals/totals of IFRS recognised amounts are permitted (in fact, required) to be used in financial statements if they provide relevant information about the entity and are fairly presented.

Summary

20. Because we have been told that there is an issue about applying the provisions of IAS 1 to subtotals/totals, we think it could be helpful to add guidance to that Standard to clarify:

    (a) what factors should be considered to ensure a subtotal is fairly presented (to address the potentially valid concerns discussed in paragraph 16 above); and

    (b) that subtotals/totals of IFRS recognised amounts are eligible to be presented or disclosed in IFRS financial statements (to address the misconception in paragraph 17 above).

21. We have prepared potential draft wording for this amendment. This is shown in Appendix B.

Explicit examples of types of subtotals/totals

22. In addition to the general guidance about the presentation or disclosure of subtotals/totals proposed in paragraph 20 the Feedback Statement raised the issue of whether examples such as EBIT or EBITDA should be specifically acknowledged in IAS 1.

23. EBIT and EBITDA are not the only examples of commonly used totals/subtotals that could be presented or disclosed in an entity's financial statements. Other commonly reported examples include:

    (a) gross margin;

    (b) operating profit; and

    (c) net debt.

24. IASB staff are concerned that singling out particular subtotals or totals may be interpreted as giving these examples more significance than others. We consider that the additional guidance proposed in paragraph 20 would be sufficient to clarify that totals/subtotals of recognised amounts that provide relevant information and that are fairly presented would be eligible for presentation/disclosure in IFRS financial statements. We do not consider that adding specific examples is necessary and that it might place undue emphasis on those examples provided.

Staff recommendation

25. We recommend that additional guidance should be added in IAS 1 to clarify what factors an entity should consider when aggregating IFRS recognised amounts into subtotals and totals. We recommend that IAS 1 should not be amended to include specific examples of commonly reported totals or subtotals such as EBIT or EBITDA.

Question 1

Does the IASB agree that guidance should be added in IAS 1 to clarify what factors an entity should consider when aggregating IFRS recognised amounts into subtotals and totals?

Question 2

Does the IASB agree that IAS 1 should not be amended to include specific examples of commonly reported totals or subtotals such as EBIT or EBITDA, for the reasons described in paragraphs 22-24 above?

Appendix A—Extracts from IAS 1

A1. The following are extracts from IAS 1 that have been referred to in this paper

Fair presentation and compliance with IFRSs

15 **Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework*.[4] The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.**

[4] Paragraphs 15–24 contain references to the objective of financial statements set out in the *Framework [for the Preparation and Presentation of Financial Statements]*. In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*, which replaced the objective of financial statements with the objective of general purpose financial reporting: see Chapter 1 of the *Conceptual Framework*.

16 **An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs.**

17 In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity:

(a) to select and apply accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. IAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of an IFRS that specifically applies to an item.

(b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

(c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Information to be presented in the statement of financial position

54 **As a minimum, the statement of financial position shall include line items that present the following amounts:**

(a) property, plant and equipment;

(b) investment property;

(c) intangible assets;

(d) financial assets (excluding amounts shown under (e), (h) and (i));

(e) investments accounted for using the equity method;

(f) biological assets;

(g) inventories;

(h) trade and other receivables;

(i) cash and cash equivalents;

(j) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;

(k) trade and other payables;

(l) provisions;

(m) financial liabilities (excluding amounts shown under (k) and (l));

(n) liabilities and assets for current tax, as defined in IAS 12 *Income Taxes*;

(o) deferred tax liabilities and deferred tax assets, as defined in IAS 12;

(p) liabilities included in disposal groups classified as held for sale in accordance with IFRS 5;

(q) non-controlling interests, presented within equity; and

(r) issued capital and reserves attributable to owners of the parent.

55 An entity shall present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.

Information to be presented in the profit or loss section or the statement of profit or loss

82 In addition to items required by other IFRSs, the profit or loss section or the statement of profit or loss shall include line items that present the following amounts for the period:

(a) revenue;

(aa) gains and losses arising from the derecognition of financial assets measured at amortised cost;

(b) finance costs;

(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;

(ca) if a financial asset is reclassified so that it is measured at fair value, any gain or loss arising from a difference between the previous carrying amount and its fair value at the reclassification date (as defined in IFRS 9);

(d) tax expense;

(e) [deleted]

(ea) a single amount for the total of discontinued operations (see IFRS 5).

(f–i) [deleted]

Information to be presented in the other comprehensive income section

82A The other comprehensive income section shall present line items for amounts of other comprehensive income in the period, classified by nature (including share of the other comprehensive income of associates and joint ventures accounted for using the equity method) and grouped into those that, in accordance with other IFRSs:

(a) will not be reclassified subsequently to profit or loss; and

(b) will be reclassified subsequently to profit or loss when specific conditions are met.

83–84 [Deleted]

85 An entity shall present additional line items, headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity's financial performance.

Results of operating activities

BC55 IAS 1 omits the requirement in the 1997 version to disclose the results of operating activities as a line item in the income statement. 'Operating activities' are not defined in IAS 1, and the Board decided not to require disclosure of an undefined item.

BC56 The Board recognises that an entity may elect to disclose the results of operating activities, or a similar line item, even though this term is not defined. In such cases, the Board notes that the entity should ensure that the amount disclosed is representative of activities that would normally be regarded as 'operating'. In the Board's view, it would be misleading and would impair the comparability of financial statements if items of an operating nature were excluded from the results of operating activities, even if that had been industry practice. For example, it would be inappropriate to exclude items clearly related to operations (such as inventory write-downs and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve cash flows, such as depreciation and amortisation expenses.

Appendix B—Potential wording for proposed amendments

B1. The following highlighted wording (proposed paragraph 31B) is potential draft guidance which could be added to IAS 1 as a result of the staff recommendation in this paper.

B2 We have also included the draft wording for the materiality amendments from the September 2013 "Amendments to IAS 1" Staff Paper[2] to provide context for the placement of the proposed draft wording. We note that the wording in the September Staff Paper will be redrafted on the basis of the comments from the September 2013 IASB meeting.

29 An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.

30 Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes.

30A An entity shall decide, in the light of its circumstances, how much detail it provides to satisfy the information needs of users, how much emphasis it places on different aspects of the requirements and how it aggregates the information. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of immaterial detail or the aggregation of items that have different characteristics.

31 An entity need not provide a specific disclosure required by an IFRS in the financial statements, including the notes to the financial statements, if the information is not material.

31A When an entity determines that a matter addressed by a Standard or Interpretation is material, it need not provide a specific disclosure that is set forth in that Standard or Interpretation if the information that would be provided by that specific disclosure is not material.

31B When an entity presents or discloses aggregated items in subtotals and totals, those subtotals or totals must be fairly presented.[3] Specifically, the totals and subtotals should:

---

[2] Refer to September 2013 IASB meeting, Agenda Paper 8B

[3] Refer to paragraph IAS 1.15-17

(a) be made up of items recognised or otherwise disclosed in compliance with IFRS;
(b) reference line items and/or other amounts disclosed in the financial statements so that what constitutes the total or subtotal is understandable;
(c) should be calculated on a consistent basis from period to period;
(d) be labelled to reflect how they have been calculated; and
(e) not be displayed with more prominence than the specific subtotals referred to in this Standard.