STAFF PAPER

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IASB Meeting

Project	**Disclosure Initiative**
Paper topic	Principles of Disclosure—Non-IFRS information

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Purpose of this paper

1. The purpose of this paper is to ask the IASB's tentative views on:
   (a) the definition of an alternative performance measure (APM);
   (b) whether to prohibit the disclosure of APMs on the primary financial statements; and
   (c) what the guidance on the disclosure of non-recurring, unusual or infrequent items should be based on.
2. This is a follow-up paper covering the issues that we thought needed discussion after the February 2015 IASB meeting (see paragraphs 4–6). The IASB's tentative views will be included in the *Principles of Disclosure* Discussion Paper.

Structure of the paper

3. This paper is structured as follows:
   (a) decisions to date (paragraphs 4–6);
   (b) the definition of an APM (paragraphs 7-31);
   (c) disclosure of APMs in the primary financial statements(paragraphs 32-53); and

(d) depiction of non-recurring, unusual or infrequently occurring events (paragraphs 54-56).

Decisions to date

4. At its February 2015 meeting the IASB discussed non-IFRS information and APMs (see Agenda Papers 11A, 11B, 11C and 11D) and decided that the *Principles of Disclosure* Discussion Paper should include the preliminary views that:

   (a) IFRS should include additional guidance on the depiction of non-recurring, unusual or infrequently occurring items in the statement of comprehensive income;

   (b) the presentation of EBIT and EBITDA in the statement of profit or loss complies with IFRS, provided that the statement is presented 'by nature' and such subtotals are in accordance with paragraphs 85–85B of IAS 1 *Presentation of Financial Statements*; and

   (c) IFRS should not prohibit the disclosure of APMs in the notes to financial statements.

5. However, the IASB asked the staff to undertake further research on the following topics:

   (a) **the definition of an APM**—some IASB members thought that line items or subtotals presented in the primary financial statements in accordance with IAS 1 were not APMs. In addition, some members suggested that the notion of fair presentation should be an explicit part of the proposed criteria for the disclosure of APMs (see paragraph 32 of the February paper, which has been reproduced in Appendix A).

   (b) **presentation of APMs on the face of the primary financial statements**—IASB members had mixed views on whether the disclosure of APMs on the face of the financial statements should be permitted.

   Each of these topics are discussed in the following paragraphs.

6. In addition, in this paper we want to clarify the IASB's preliminary views regarding the depiction of non-recurring, unusual or infrequently occurring items in the statement of comprehensive income (see paragraph 4(a)).

The definition of an APM

Discussions to date

7. In the February 2015 meeting we discussed the potential of an APM to mislead despite the fact that users consider that they can be useful (see paragraphs 7 and 8 of the February Paper).

8. We broadly defined APMs as measures that are conveyed by an entity as an alternative to an IFRS measure (ie competing with that IFRS measure) of performance, to which the entity gives more emphasis than it does to the IFRS measures (see paragraph 4 of the February paper).

9. At that meeting the IASB asked the staff to further develop this definition. Some IASB members expressed the view that because the term 'APM' had negative connotations, it was important to distinguish what an APM is from what it is not. In particular, some expressed the view that line items and subtotals presented in the primary financial statements in accordance with IFRS should not be viewed as APMs.

Staff analysis

10. We think the description of an APM we proposed in February (see paragraph 8) is a good basis from which to develop a definition for it. We have therefore structured our staff analysis as follows:

    (a) IFRS performance measures (paragraphs 11–17);

    (b) definition of an APM (paragraphs 18–26);

    (c) additional guidance on APMs in a general disclosure Standard (paragraphs 27–30); and

    (d) staff recommendation (paragraph 31).

IFRS performance measures

11. We think that a performance measure, in the context of financial statements, is an amount (ie a quantifiable indicator) representing an aspect of an entity's historical, current or future financial position, financial performance or cash flows. It is used as a benchmark to compare an entity's performance with its performance in prior periods or with other entities.

12. In general, these measures will be financial measures of performance such as *profit or loss*, *comprehensive income* or *revenue* that are drawn from the financial recording system. However, earnings-per-share (EPS) could also be considered to be a performance measure, because it is required by IFRS and is a performance measure scaled by the number of shares on issue.

13. For the purposes of this discussion, we think there are two ways that a measure would be an 'IFRS performance measure', namely:

    (a) a performance measure that is defined or specified in IFRS; or

    (b) a performance measure that is presented or disclosed in order to meet the more general information requirements in IFRS.

14. Performance measures that are defined or specified in IFRS include profit or loss (see paragraph 7 of IAS 1), revenue (see Appendix A of IFRS 15 *Revenue from Contracts with Customers*) or the range of measures specifically required to be disclosed as part of an entity's segment reporting in accordance with IFRS 8 *Segment Reporting*. Similarly, finance costs are required to be presented in the statement of comprehensive income but IFRS does not define the term 'finance costs'. This would be considered to be specified in IFRS although it is not defined.

15. However, many other items, line items, subtotals and totals in the primary financial statements and the notes could be viewed as performance measures, but many of these are not defined or specified by IFRS. However, they could still be in accordance with IFRS. For example, paragraphs 55 and 85 of IAS 1 require the disclosure of additional subtotals or line items in the statement of financial position and the statement(s) of profit or loss and other comprehensive income that are relevant to an understanding of the entity's financial position and financial performance, respectively. In addition, paragraph 112(c) of IAS 1 requires that the notes shall

provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

16. We think that performance measures that are defined or specified by IFRS (see paragraph 13(a)) are the best anchor from which to assess an entity's financial performance. That is not to say that these measures are the best or only measure of an entity's financial performance, but instead that they play a unique role in providing a neutral and commonly understood basis from which to validate (ie compare and understand) other performance measures. We think that this role is enhanced when the performance measures are defined or specified by IFRS, because they are standardised to the extent that the calculation and presentation have been independently prescribed.

17. It follows that, in our view, APMs are those that are presented as an alternative to those defined or specified in IFRS. We think that the purpose of disclosure guidance about APMs is to protect the role of IFRS measures as a source of validation in further analysis.

Definition of an APM

18. On the basis of the previous discussions with the IASB (see paragraph 9), we think that the term APM has negative associations. There is also a sense that information that is presented in accordance with IFRS should not be labelled an APM. We think that these negative associations arise, at least in part, from the use of the word 'alternative', which can mean:

(a) in the case of one or more things, available as another possibility or choice; or

(b) in the case of two things, mutually exclusive, ie a substitute.

19. Consequently, by definition, an APM is presented or disclosed to compete with, or be a substitute for, an IFRS performance measure. Presenting or disclosing performance measures in a way that competes, or acts as a substitute, means that they may undermine the role of IFRS performance measures, which is to provide a neutral and commonly understood source of validation (see paragraph 16). We think that measures that undermine the role of IFRS performance measures diminish the

understandability and comparability of IFRS financial statements and are therefore not fairly presented.[1]

20. We also think that only financial performance measures can be presented or disclosed as an alternative (ie as a substitute or direct competitor) to performance measures that are specified or defined in IFRS. Non-financial measures such as sales per square metre and churn rates would not be APMs for the purposes of the financial statements, because they are calculated using amounts that are generally outside the scope of financial statements and are therefore clearly distinguishable from IFRS amounts.

21. On the basis of our discussion in paragraphs 18–20 that we think that the term APM describes those financial performance measures that are unfairly presented within the context of IFRS financial statements because they compete with IFRS performance measures.

22. Therefore, in our view an APM is:

    (a) a financial performance measure—an amount (ie a quantifiable indicator) representing an aspect of an entity's historical, current or future financial position, financial performance or cash flows (see paragraph 11); and

    (b) presented or disclosed as an alternative to a performance measure that is specified or defined in IFRS and as a result is not fairly presented (see paragraph 19).

23. On the basis of the criteria for the disclosure of APMs we described in the February IASB Meeting (see Appendix A) we think a financial performance measure will be presented as an alternative to an IFRS performance measure if it:

    (a) it is unclear how it reconciles or relates to a performance measure that is defined or specified in IFRS; or

    (b) it obscures or could be easily confused with performance measures that are defined or specified in IFRS.

24. Not being able to reconcile or relate a performance measure back to an amount defined or specified in IFRS diminishes a user's ability to validate the alternative

[1] Paragraph 17(b) of IAS 1 states that a fair presentation requires an entity (among other things) to present information in a manner that provides relevant, reliable, comparable and understandable information.

measure, adversely affecting its understandability and comparability. For example, this would happen if it is:

(i) not possible to see what has been added or subtracted from the performance measure defined or specified in IFRS to arrive at the alternative measure; or

(ii) inconsistently defined from period to period.

25. In addition, a performance measures that obscures or is easily confused with one that is defined or specified in IFRS diminishes the user's ability to identify a key source of validation for their analysis. More worryingly, it could mislead the investor into thinking that the APM has the attributes/credibility of the IFRS measure. For example, this would happen if the APM is:

(a) presented with more prominence than the most directly comparable performance measure defined or specified in IFRS; or

(b) labelled in a way that does not clearly distinguish it from the IFRS measure or other commonly understood.

26. Because APMs are not fairly presented, they would not be permitted to be disclosed in financial statements unless that presentation changes. That is the presentation is changed so it no longer is presented as an 'alternative' but is rather presented in a way that supplements or explains those measures defined or specified in IFRS.

Additional guidance on APMs in a general disclosure Standard

27. In our view a general disclosure Standard should include a definition of an APM (see paragraphs 22–23 of this paper). This definition will provide high-level guidance about what does and does not make a financial performance measure fairly presented.

28. The next question is whether we need further guidance in a general disclosure standard that puts more discipline around ensuring that financial performance measures are not disclosed as APMs. We think this depends on whether the performance measure is reported in the primary financial statements or in the notes.

29. For the notes, we think no additional guidance (apart from the definition of an APM) on the presentation or disclosure of financial performance measures is necessary. This is because:

(a) IFRS already includes guidance designed to ensure that information in financial statements is fairly presented eg paragraph 15 of IAS 1;

(b) we think the definition of an APM will be sufficient to differentiate those forms of presentation that may make a performance measure unfairly presented; and

(c) we have heard few concerns about disclosure of performance of measures in the notes to the financial statements.

30. However we do think we need to consider whether additional guidance is needed to respond to concerns about the presentation and disclosure of performance measures in the primary financial statements. This is discussed in the next section on disclosure of 'APMs' in the primary financial statements (paragraphs 32–53 of this paper).

Staff recommendation

31. On the basis of discussion in paragraphs 10–30, we recommend that a general disclosure Standard should include the following definition of an APM. This definition would provide that an APM is a financial performance measure that is presented or disclosed as an alternative to a performance measure defined or specified in IFRS because:

(a) it is unclear how it reconciles or relates to a performance measure that is defined or specified in IFRS; or

(b) it obscures or could be easily confused with performance measures that are defined or specified in IFRS.

APMs are not fairly presented and are therefore not permitted to be presented or disclosed in financial statements.

Question 1 for the IASB
1. Does the IASB agree with the staff's recommendation regarding the definitions of performance measures and APMs in paragraph 31?

Disclosure 'APMs' in the primary financial statements

Previous discussions

32. As highlighted at the February 2015 IASB meeting, some members have concerns about alternative performance measures being disclosed on the face of the primary financial statements, in particular on the face of the statement(s) of profit or loss and other comprehensive income. Those with these concerns hold the view that such disclosure on the face is highly likely to mislead investors.

33. As we have already discussed in paragraphs 4–5, our staff recommendation at that meeting was not to prohibit APMs in the primary financial statements or in the notes. We were concerned that prohibiting such disclosures might restrict the disclosure of useful information. However, we did recommend that the disclosures of such measures should be permitted when their presentation met proposed criteria (see Appendix A).

34. However, because of the mixed views on presentation in the primary financial statements, the IASB asked the staff to undertake further research on this topic.

Staff analysis

35. We think most of the concern regarding the disclosure of 'APMs' relates to information presented in or disclosed on the face of the primary financial statements, in particular the statement(s) of profit or loss and other comprehensive income. We have therefore focused our analysis and recommendations in this section on this statement, although we think our views would also be applicable to the other statements unless otherwise indicated.

36. We have split our discussion into the following sections:

    (a) distinguishing between presentation and disclosure on the face of the primary financial statements (paragraphs 37-40);

    (b) presentation as a line item or subtotal that forms part of a primary financial statement (paragraphs 41-43);

(c) disclosure on the face of a primary financial statement that does not form part of that statement (paragraph 44-48);

(d) a common example—additional columns (paragraphs 49-52); and

(e) staff recommendation (paragraph 53).

Distinguishing between presentation and disclosure on the face

37. We think it is important to distinguish the difference between presentation as a line item or subtotal that forms part of a primary financial statement and disclosure of information along-side ie ‘on the face’ of that statement but not forming part of it.

38. The proposals in the *Conceptual Framework* Exposure Draft (ED) make it clear that:

(a) an important feature of a [primary financial statement] is that the amounts recognised in a statement are included in the totals and, if applicable, subtotals, that give structure to the statement (paragraph 5.6 of the *Conceptual Framework* ED); and

(b) only items that meet the definition of an asset, liability or equity are recognised in the statement of financial position and only items that meet the definition of income or of expenses are recognised in the statement(s) of financial performance (paragraph 5.7 of that ED).

39. It follows that a performance measure is not presented in the statement(s) of profit or loss and other comprehensive income, even if it disclosed on the same page or screen shot, if:

(a) it is not made up of items recognised income or expenses; or

(b) it is not included as a discreet line item included in the totals and subtotals (as relevant) for that statement, for example, profit or loss and total comprehensive income.

40. Examples of additional disclosures on the same page of the statement of comprehensive income include:

(a) the disclosure of information below the totals for that statement, for example, EPS, common ratios or performance measures in a separate box;

(b) columns whose line items are not those used to calculate the statement totals and subtotals; for example, we have seen additional columns that show:

   (i) unusual or exceptional items;

   (ii) business segments;

   (iii) income and expense based on an alternative measurement basis for a class of assets under a former GAAP; and

   (iv) pro-forma line items that consider a recent business combination 'as if' it has always been consolidated.

(c) line items that do not belong to that statement because they:

   (i) relate to elements that should not be included in that statement, for example assets or liabilities on the income statement; and/or

   (ii) they are otherwise made up of amounts not recognised or measured in accordance with IFRS, for example, cash earnings or insurance premium revenues.[2]

Presentation as a line item or subtotal that forms part of the primary financial statement

41. We have heard little concern (apart from the depiction of non-recurring, unusual or infrequently occurring items) about the presentation of line items, subtotals and totals forming part of the primary financial statements. We think this is because:

(a) the totals and subtotals of those statements provide a structure that makes it clear that the additional performance measures are components of those subtotals and totals specified or defined in IFRS; and

(b) paragraphs 55A and 85A–85B of IAS 1 mean that those subtotals in the statement of financial position and the statement(s) of profit or loss and other comprehensive income are fairly presented.

[2] Insurance premium revenue was the subject of a Staff Paper in the April 2014 IASB (Agenda Paper 2A) meeting in which the IASB agreed with the staff's recommendation to prohibit such disclosures on the primaries.

42. Consistently with our proposals in February, we think that performance measures should be permitted to be presented as a line item or subtotal that forms part of a primary financial statement. This is because we think the current guidance in IAS 1 (described in paragraph 41(b) above) means that such measures, when presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income, are fairly presented. We therefore think the current guidance in IAS 1 already provides sufficient discipline around the disclosure of performance measures in the statement of financial position and the statement(s) of profit or loss and other comprehensive income.

43. We do however recommend that the IASB should consider whether the guidance described in paragraph 41(b) of this paper should be extended to the other primary financial statements (statement of cash flows, statement of changes in equity). Because we have not heard of any problems regarding the presentation of line items, totals and subtotals in these other primary financial statements, we recommend that this issue should be considered as part of the performance reporting project.

Disclosure on the face of a primary financial statement that does not form part of that statement

44. We have heard from some users that they like performance measures to be disclosed on the face of the primary financial statements, provided that the measure is clear and understandable.[3]

45. However, those with concerns about the disclosure of performance measures on the face, but not forming part of the primary financial statements are of the view that such disclosure clutters the statements. This makes them less understandable and contradicts the role of the primary financial statement to provide a 'structured and comparable summary of information'.

46. In addition, there is a concern that disclosures of performance measures on the face of, but not forming part of the primary financial statements are highly likely to mislead investors, particularly retail or unsophisticated investors, and therefore such disclosure should be prohibited.

[3] We have received this feedback from CMAC meetings (October 2014) and outreach performed during April 2015.

47. We think the criteria for disclosure of APMs we discussed with the IASB in February (see Appendix A) respond to these concerns about clutter and the greater potential to mislead that arises when performance measures are disclosed ‘on the face’ of the primary financial statement. In effect they articulate that greater care is needed to achieve fair presentation of performance measures when they are disclosed on the face of the primary financial statements, but do not form part of it.

48. We therefore recommend that performance measures are permitted to be disclosed on the face of the primary financial statements, but not form part of those statements, if they are fairly presented. We think a performance measure disclosed on the face of the primary financial statements but not forming part of those statements will be fairly presented, if it is:

   (a) reconciled (where possible) to the most directly comparable measure defined or specified in IFRS and presented in that statement;

   (b) is accompanied by an explanation (on the face or in the notes) of why it provides relevant information about an entity’s financial position or financial performance and why the adjustments to the most directly comparable measure (see paragraph (a)) have been made;

   (c) presented and labelled in a manner that makes it clear and understandable;

   (d) accompanied by comparatives and consistently classified and presented except for changes in accordance with paragraph 45 of IAS 1;

   (e) not displayed with more prominence than the subtotals and totals required in IFRS for that statement; and

   (f) presented in a way that makes it clear whether the measure forms part of the financial statements and whether it is audited or validated on the same basis as the IFRS information.

A common example—additional columns

49. During our research on this topic, we noted that the disclosure of information in additional columns was raised by regulators as a source of potential confusion for investors (see Agenda Paper 20 of the January 2014 IFRS Interpretations Committee meeting). At that meeting the IFRS Interpretations Committee decided that the

Disclosure Initiative should deal with some of the issues—including additional columns.

50. We have seen that in response to regulators (see paragraphs 43–45 of Appendix D of Agenda Paper 20 of January 2014), constituents have stated that additional columns result from the application of guidance in paragraph 85 of IAS 1 regarding additional subtotals and line items. We do not agree with such an interpretation, because we think that additional columns are additional disclosures on the face of the statement of comprehensive income that do not form part of that statement as we discussed in the previous section (see paragraphs 37–40).

51. We recognise that additional columns can be misleading because of the risk of additional clutter on the face of the primary financial statements. However, we also recognise that in some cases, it can present things more clearly, especially if the impact of what is being presented is across a number of line items, for example, the impact of a business combination.

52. We think that disclosure of performance measures on the face of a primary financial statement in the form a column is another form of disclosure covered by our recommendation in paragraph 48. We do not think that guidance that is specific to additional columns is necessary.

Staff recommendation

53. On the basis of our discussion in paragraphs 35–52 we recommend that:

(a) a general disclosure Standard does not include any additional guidance on the presentation of subtotals and line items forming part of the primary financial statements (paragraph 42);

(b) does include the additional guidance for the disclosure of performance measures on the face, but not forming part of the primary financial statements. This guidance provides that such disclosure will be fairly presented, if the performance measure is:

(i) reconciled (where possible) to the most directly comparable measure defined or specified in IFRS and presented in that statement;

(ii) is accompanied by an explanation (on the face or in the notes) of why it provides relevant information about an entity’s financial position or financial performance and why the adjustments to the most directly comparable measure (see paragraph (a)) have been made;

(iii) presented and labelled in a manner that makes it clear and understandable;

(iv) accompanied by comparatives and consistently classified and presented except for changes in accordance with paragraph 45 of IAS 1;

(v) not displayed with more prominence than the subtotals and totals required in IFRS for that statement; and

(vi) presented in a way that makes it clear whether the measure forms part of the financial statements and whether it is audited or validated on the same basis as the IFRS information (paragraph 48);

(c) that any proposals to extend the requirements in paragraphs 55 and 85A–85B of IAS 1 on the fair presentation of subtotals and totals in the statement of financial position and the statement of comprehensive income to the other the other primary financial statements should be considered as part of the performance reporting project (paragraph 43); and

(d) no specific guidance on additional columns disclosed on the face of a primary financial statement is necessary (paragraph 52).

Question 2 for the IASB
2. Does the IASB agree with the staff recommendation in paragraph 53?

Depiction of non-recurring, unusual or infrequently occurring items

54. As we have already noted, the IASB decided at the February 2015 IASB meeting that IFRS should provide additional guidance for this topic. At that meeting, the staff

presented, in Agenda Paper 11B, three options for an approach to this topic (see paragraph 46 of that paper):

(a) develop guidance on when and how transactions or events should be presented in the primary financial statements as ‘unusual’ or ‘infrequently occurring’, with further details in the notes. Such an approach to standardisation would be similar to the FASB approach. The guidance could also clarify the prohibition on the use of specific terms such as ‘recurring’ or ‘non-recurring’.

(b) develop specific guidance to the effect that an entity must not label any item in the primary financial statements by referring to its frequency of occurrence or whether or not it is unusual. The entity would be allowed to provide such information only in the notes.

(c) guidance on the statement of profit or loss and other comprehensive income could be developed as part of a separate Performance Reporting project.

55. The relevant discussion about the depiction of non-recurring, unusual or infrequently occurring items in the February Paper is included in Appendix B.

56. It was unclear from the discussion at the meeting which option in paragraph 54 the IASB agreed to undertake. The staff think that it was paragraph 54(a) but would want to confirm the IASB’s tentative view.

Question 3 for the IASB
3. Does the IASB agree with the approach in paragraph 54(a) for developing guidance on non-recurring, infrequent and unusual items? If not, which approach should be taken?

Appendix A—Extracts from February 2015 IASB Meeting Agenda Paper 11B

Other forms of disclosure of APMs on the face of the financial statements and in the notes

[…]

32 We think an alternative would be to build on the guidance on subtotals in paragraphs 55A and 85A-B in IAS 1 and to extend it so it is applicable to the disclosure of APMs in financial statements as a whole (on the face or in the notes). Building on the current requirements of paragraphs 55A and 85A-B of IAS 1 and considering the concerns in paragraph 15 above, possible criteria for the disclosure of APMs on the face and in the notes could be:

(a) be reconciled (where possible) to the most directly comparable measure defined or specified in IFRS and presented in the statement of financial position or performance;

(b) explain why the APM provides relevant information about an entity's financial position or financial performance and why the adjustments to the most directly comparable measure (see paragraph (a)) have been made;

(c) be presented and labelled in a manner that makes it clear and understandable what the APMs show and how they are constructed;

(d) provide comparatives and be clear and consistent about how the APM is defined from period to period and explain if adjustments have been made (in accordance with paragraph 45 of IAS 1);

(e) not be displayed with more prominence than the subtotals and totals required in IFRS for that statement; and

(f) be clear whether the APM forms part of the financial statements and whether it is audited or validated on the same basis as the IFRS information.

[…]

Depiction of non-recurring, unusual or infrequently occurring items

33 Line items in the statement of comprehensive income are sometimes labelled as 'non-recurring', exceptional', 'special' or 'one-time'. APMs in the form of the resulting subtotals include 'normalised earnings', 'underlying earnings' and 'adjusted profit'. See Agenda Paper 11D Example 4.

34 We have heard concerns about the presentation of additional subtotals/APMs in the statement of comprehensive income resulting from the inclusion/exclusion of amounts presented as line items when that inclusion or exclusion has been made on the basis of their non-recurring or exceptional nature. The concerns reflect a perception that: (a) transactions or events with a negative impact to the entity's financial position and financial performance are often classified as non-recurring or exceptional; and (b) many transactions or events classified as non-recurring or exceptional recur too frequently to be classified in that way.

35 Similarly, we also have heard concerns that in some cases not all the financial effects of infrequently occurring or unusual transactions or events are disclosed with equal prominence in the primary financial statements. For example, the financial effects of infrequently occurring or unusual transactions or events are distinguished for operating income, but the distinction is missing for related effects on finance expense and income.

36 However, we understand that information about the frequency of particular transactions and events and related financial effects are highly relevant for predicting future cash flows. Thus, many preparers provide information in the (primary) financial statements and/or the notes on whether transactions are considered to be unusual, infrequently occurring or non-recurring.

37 Paragraph 87 of IAS 1 prohibits the entity from labelling line items as 'extraordinary'. However, paragraph 97 of IAS 1 provides that when items of income and expense are material, an entity shall disclose their nature and amount separately in the statement of comprehensive income. The connection between these two paragraphs is clarified by IAS 1 paragraphs BC63-64, in which the IASB states that segregating items by their frequency is not in line with the presentation of income and expenses by their function or nature.

38 Staff have mixed views whether the IASB should provide additional guidance in a general disclosure Standard (eg a replacement of IAS 1) on the depiction of non-recurring, unusual or infrequently occurring items.

39 Some staff are of the view that assessing whether an item is material because of its nature, in accordance with paragraph 97 of IAS 1 should guide an entity's decision to present subtotals or line items in the statement of comprehensive income. Those with this view think that whether something is unusual would be part of its nature and might be relevant for investors for assessing an entity's future cash flows. This materiality assessment might result in its presentation as a separate line item. However, the resulting label or note explaining that line item should be based on its nature or function, not on whether its 'non-recurring' or 'one-time'. The requirements in paragraph 85A-B of IAS 1 would help to ensure a clear use of labelling to achieve a fair presentation in this case.

40 However, other staff think that IFRS should contain additional guidance on how to distinguish recurring transactions versus those that are non-recurring or unusual or that occur only infrequently. This is because many of the concerns regarding the presentation of APMs as subtotals in the statement of comprehensive income result from the inclusion or exclusion of amounts relating to such transactions.

41 For example, in accordance with US SEC guidance regarding the conditions for the use of non-GAAP financial measures, an item must not be identified as non-recurring, infrequent or unusual, when the nature of the charge or gain is such that it is reasonably likely to recur within two years or if there was a similar charge or gain within the previous two years (see Paper 11D).

42 The IASB, together with the FASB, proposed changes to disclosure of unusual or infrequently occurring transactions or events in the Financial Statement Presentation (FSP) project. Paragraphs 155-156 of the FSP Staff Draft of an Exposure Draft IFRS X Financial Statement Presentation included guidance as follows:

> An entity shall present separately a material event or transaction that is unusual or occurs infrequently. An unusual or infrequently occurring event or transaction shall be presented separately in the appropriate section, category or subcategory in the statement of comprehensive income. A

> description of each unusual or infrequently occurring event or transaction and its financial effects shall be disclosed in the statement of comprehensive income or in the notes to financial statements. An entity shall not describe any item of income or expense as an extraordinary.

43 The terms 'unusual' and 'infrequently occurring' were defined in the FSP Staff Draft as follows:

> infrequently occurring: Not reasonably expected to recur in the foreseeable future given the environment in which an entity operates. unusual: Highly abnormal and only incidentally related to the ordinary and typical activities of an entity, given the environment in which the entity operates.

44 Meanwhile, in July 2014 the FASB published a Proposed Accounting Standards Update Income Statement—Extraordinary and Unusual Items10. The proposed Update would eliminate the concept of extraordinary items from US GAAP and would therefore align US GAAP income statement presentation guidance more closely with IAS 1. However, the FASB has retained the following guidance about the presentation of unusual or infrequently occurring items:

> A material event or transaction that an entity considers to be either of an **unusual nature** or of a type that indicates **infrequency of occurrence** shall be reported as a separate component of income from continuing operations. The nature and financial effects of each event or transaction shall be disclosed on the face of the income statement or, alternatively, in notes to financial statements. Gains or losses of a similar nature that are not individually material shall be aggregated. Such items shall not be reported on the face of the income statement net of income taxes. Similarly, the EPS effects of those items shall not be presented on the face of the income statement.

45 The proposed Update retains the existing definitions of 'unusual nature' and 'infrequency of occurrence' in current US GAAP, which are similar to the defined terms 'unusual' and 'infrequently occurring' in the FSP Staff Draft.

46 Those staff who think additional guidance in a general disclosure Standard (eg a replacement of IAS 1) on the depiction of non-recurring, unusual or infrequently occurring items would be helpful think there are three alternatives:

(a) develop guidance on when and how transactions or events should be presented in the primary financial statements as ‘unusual’ or ‘infrequently occurring’, with further details in the notes. Such an approach to standardisation would be similar to the FASB approach. The guidance could also clarify the prohibition on the use of specific terms such as ‘recurring’ or ‘non-recurring’;

(b) Develop specific guidance to the effect that an entity must not label any item in the primary financial statements by referring to its frequency of occurrence or to whether or not it is unusual. The entity would be allowed to provide such information only in the notes; or

(c) guidance on the statement of profit or loss and other comprehensive income could be developed as part of a distinct performance reporting project.

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