

Better Communication in Primary Financial Statements

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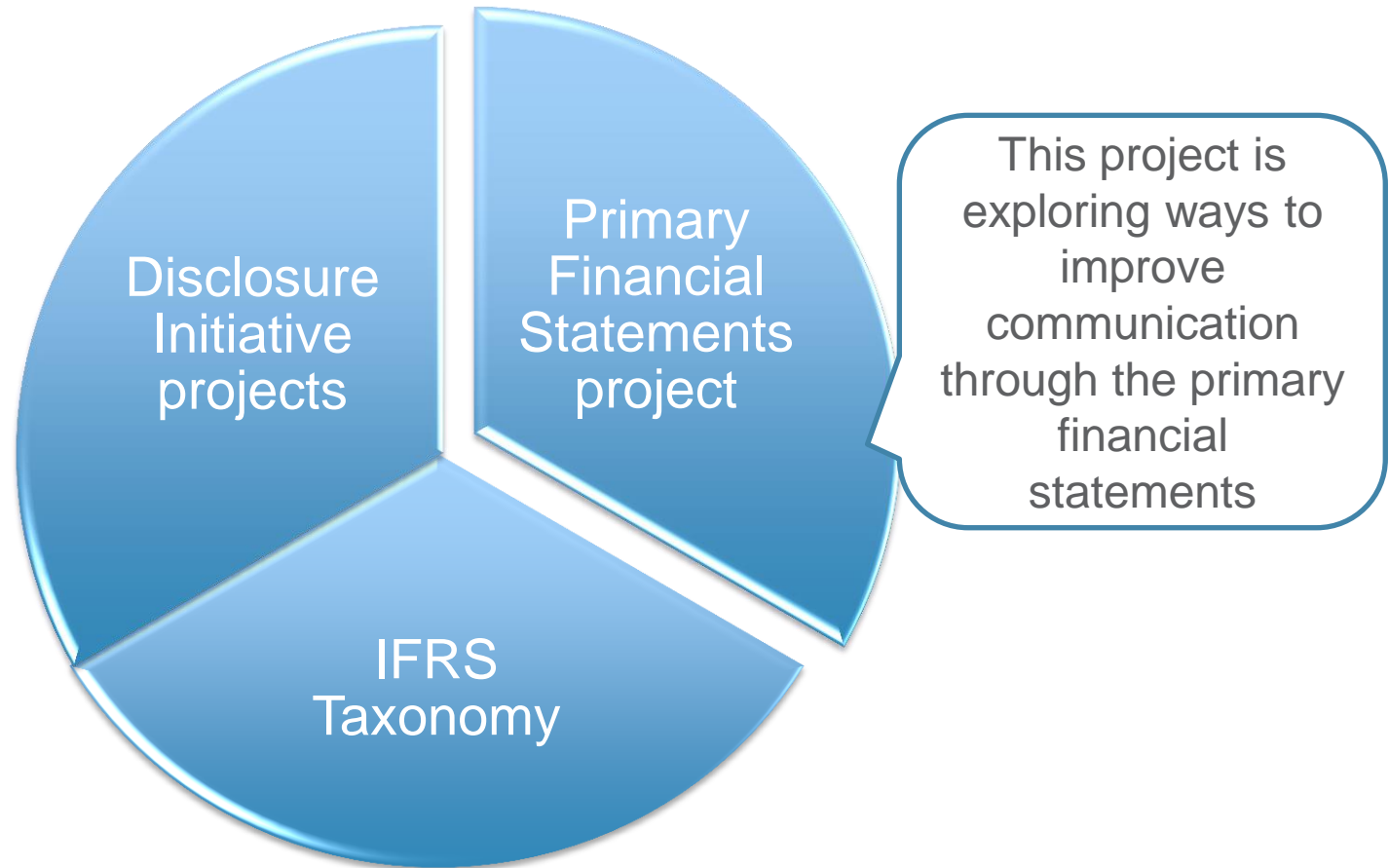
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	Background
	Better communication theme
	Scope of initial research
	Issues—Structure
	Issues—APMs
	Questions for the break-out session

Background: Feedback from 2015 Agenda Consultation

- Many respondents identified Primary Financial Statements as a priority project
- Many stated that the project should focus on performance reporting
- Respondents provided fewer comments on the other primary financial statements



Primary Financial Statements

Statement of financial performance



✓ Consider structure and content including line items, subtotals and alternative performance measures

Statement of cash flows



✓ Explore whether there is a strong need for improvements to structure and content

Statement of financial position

Statement of changes in equity



✗ Consider as part of Financial Instruments with Characteristics of Equity project

Structure – what we hear

Comparability

VS

Flexibility

Lack of comparability negatively affects usefulness of IFRS financial information

Because of the lack of comparability, users prefer financial statements 'standardised' by data aggregators

Recognition and measurement should be principle based but presentation should be more structured

Flexibility allows preparers to tell their own story

As long as necessary information is available in the notes, primary financial statements can be concise

IFRS Standards should keep their principle-based nature

Structure – problems

- We observe inconsistencies in structure even within the same industry:

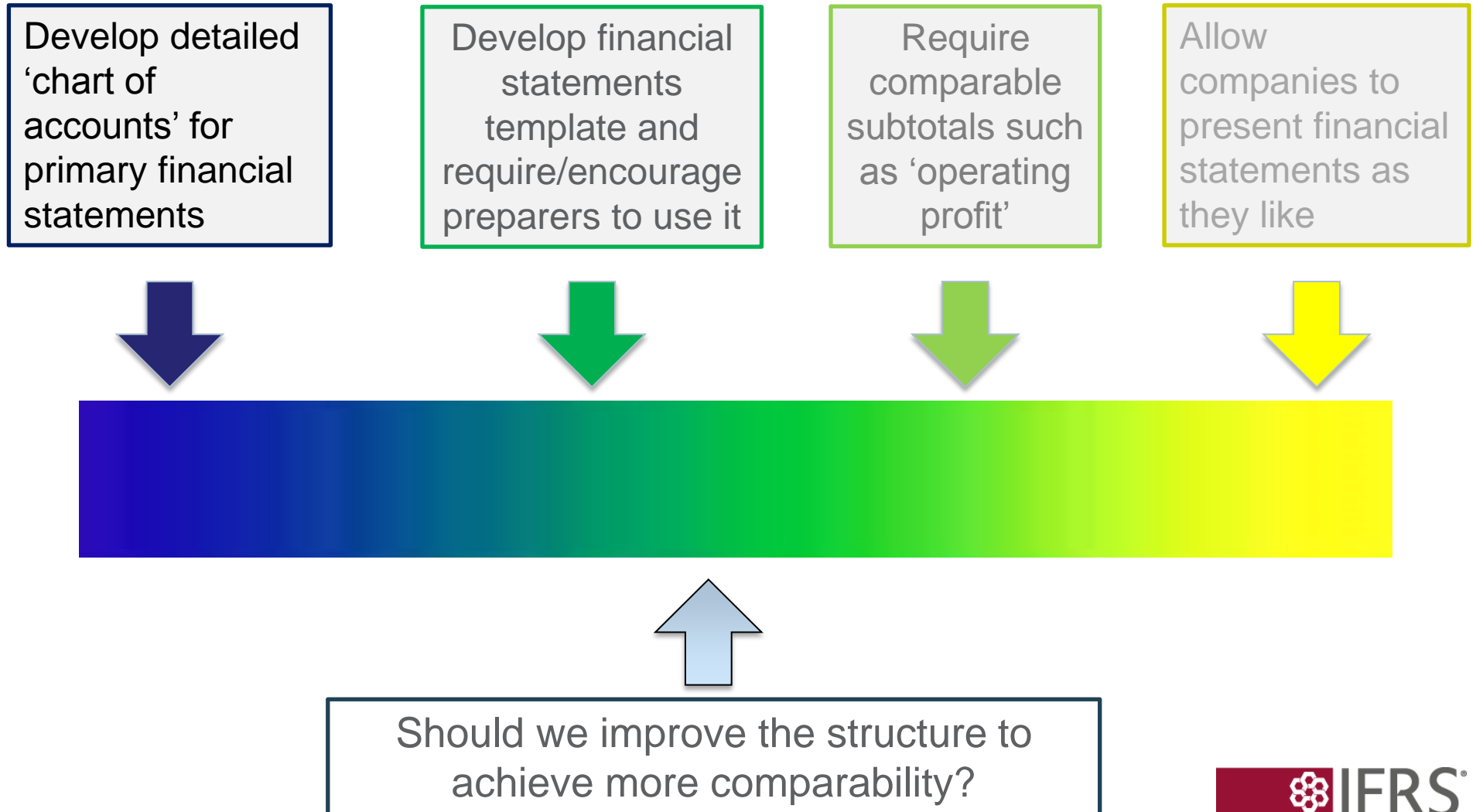
Is this an example of lack of comparability?

Company A	Company B	Company C	Company D
Revenue	Revenue	Revenue	Revenue
Cost of goods sold	Cost of goods sold	Operating expenses	
Distribution cost	Selling cost (including marketing costs)		
Marketing and administrative costs	General and administrative cost		
R&D cost	R&D cost		
Other cost	Other cost		
Adjusted operating profit	Adjusted operating profit	Adjusted operating profit	
Non-recurring items	Non-recurring items	Non-recurring items	
Operating profit	Operating profit	Operating profit	Operating profit

Is this an example of 'preparers telling their own story'?

Could difference in subtotals be misleading?

Structure – possible approaches



Alternative Performance Measures (APMs) and Non-GAAP

Non-GAAP financial measures can be useful to issuers and investors because they can provide additional insight into an issuer's financial performance, financial condition and/or cash flow.

Problems can arise, however, when non-GAAP financial measures are presented inconsistently, defined inadequately, or obscure financial results determined in accordance with GAAP. Furthermore, non-GAAP financial measures typically lack a standardised meaning and, if so, are generally not comparable from one issuer to the next.

IOSCO Statement On Non-GAAP Financial Measures Final report, June 2016

- In June 2011, the Advisory Council discussed the issue of Non-GAAP measures
- In October 2014, the Advisory Council identified the relevance of IFRS information in the face of competition from Non-GAAP measures as a risk for the IFRS Foundation
- In February 2015, the Advisory Council identified closing the gap between the IFRS Standards and Non-GAAP measures as an opportunity for the IFRS Foundation

Increasing use of APMs indicates that financial statements are losing their relevance

Alternative performance measures are misleading investors

By presenting more performance measures in financial statements, transparency, comparability and discipline will be enhanced and measures will be audited

The IASB should develop mechanism to allow preparers to present more performance measures in financial statements

APMs – problems

- Some companies communicate performance mainly through APMs.

	Annual report		Outside of annual report	
	Income statement	MD&A	Press release	Presentation for investors
Revenue	IFRS	IFRS	IFRS	
Revenue increase excluding currency effect		APM	APM	APM
Operating profit	Own definition	Own definition	Own definition	Limited use
Adjusted operating profit (excluding non-recurring items etc)		APM	APM	Limited use
Adjusted operating profit increase excluding currency effect			APM	APM
Adjusted operating margin (Adjusted operating profit / Revenue)		APM		APM
Adjusted operating margin increase excluding currency effect		APM	APM	APM
Net income	IFRS	IFRS	IFRS	Limited use
Adjusted net income		APM	APM	
Comprehensive income	IFRS			
Basic EPS	IFRS	IFRS	IFRS	Limited use
Diluted EPS	IFRS			
Adjusted EPS		APM	APM	Limited use
Adjusted EPS increase excluding currency effect		APM	APM	APM

APMs – possible approaches

- IFRS financial statements could present more performance measures

Operating profit could be standardised

Recurring operating profit could be presented in F/S with transparency of adjustments

Adjusted EPS could be presented in F/S with clear reconciliation

IASB could provide guidance on use of APMs*

	Performance measures
Operating profit	Own definition
Adjusted operating profit (excluding non-recurring items)	APM
Adjusted EPS (excluding non-recurring items)	APM

*This is part of the Discussion Paper 'Principles of Disclosure'

Structure of Primary Financial Statements

- Is there a conflict between:
 - allowing entities the flexibility to tell their story; and
 - providing users with comparable information?
- If there is a conflict, should the IASB address that conflict in the Primary Financial Statements project? If so, how?

APMs

- Is the use of alternative performance measures a problem?
- What, if anything, should the IASB do to address the issue?

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