

STAFF PAPER

December 2017

IASB® Meeting

Project	Primary Financial Statements		
Paper topic	Cover note		
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Purpose of the meeting

1. At this meeting, we will discuss the following topics:
 - (a) the objective of introducing a management performance measure (MPM) subtotal into the statement(s) of financial performance and possible other locations for the presentation and disclosure of that measure; and
 - (b) some targeted improvements to the statement of cash flows.

Papers for this meeting

2. Agenda papers for this meeting:
 - (a) **Agenda Paper 21** this agenda paper provides an index of papers for this meeting and sets out our planned next steps. It also provides a summary of the Board's tentative decisions to date in the project.

- (b) **Agenda Paper 21A** sets out the staff’s proposals for the objective and location of the management performance measure (MPM).
- (c) **Agenda Paper 21B** provides background information and an overview of papers 21C and 21D for this meeting.
- (d) **Agenda Paper 21C** explores the removal of options for the classification of interest and dividends paid and received in the statement of cash flows by prescribing a single classification for each of these items.
- (e) **Agenda Paper 21D** provides the staff’s initial thoughts regarding the Board’s proposal to have a consistent starting point for the indirect reconciliation of cash flows and the potential alignment of the operating section across the statement of cash flows and the statement(s) of financial performance.

Next steps

3. At future Board meetings, we plan to discuss:
 - (a) how to develop our proposed structure for the statement(s) of financial performance further to address more complex scenarios, for example entities providing financial services;
 - (b) the outstanding issues on the MPM listed in paragraph 15 of Agenda Paper 21A, including the presentation of management-defined adjusted earnings per share (EPS);
 - (c) further development of principles of aggregation and disaggregation, including considering thresholds and the need for additional minimum line items;
 - (d) development of illustrative examples/templates for the primary financial statements for a few industries; and
 - (e) further development of our targeted improvements to the statement of cash flows.

Appendix—Summary of tentative decisions to date

December 2016 Board meeting

Agenda Paper 21: Scope of the project—cover note

The Board tentatively decided to focus on targeted improvements to the statement(s) of financial performance and to the statement of cash flows. All 11 Board members agreed with this decision.

The Board will decide at a later stage of the project whether it will issue a Discussion Paper or an Exposure Draft as the first due process output of the project. All 11 Board members agreed with this decision.

Agenda Paper 21A: Scope of the project—statement(s) of financial performance

Board members tentatively decided, by consensus, to explore the following topics:

- a. requiring additional subtotal(s) in the statement(s) of financial performance—earnings before interest and tax (EBIT) and/or operating profit;
- b. removing some of the options for presentation of income and expenses in existing IFRS Standards (eg presentation of net interest cost on the net defined benefit liability);
- c. providing guidance on the use of performance measures, including separate presentation of non-recurring, unusual or infrequently occurring items; and
- d. better ways to communicate information about other comprehensive income (OCI).

Agenda Paper 21B: Scope of the project—other primary financial statements and segment reporting

The Board tentatively decided to explore the following topics:

- a. elimination of options for the classification of the cash effects of interest and dividends in the statement of cash flows. All 11 Board members agreed with this decision.
- b. alignment of the operating section across the statement of cash flows and the statement(s) of financial performance. All 11 Board members agreed with this decision.
- c. requiring a consistent starting point for the indirect reconciliation of cash flows. All 11 Board members agreed with this decision.
- d. development of templates for the statement(s) of financial performance, the statement of cash flows and the statement of financial position for a small number of industries. Eight of 11 Board members agreed and three members disagreed with this decision.
- e. development of a principle for aggregating and disaggregating items in the primary financial statements. All 11 Board members agreed with this decision.

The Board tentatively decided not to consider targeted improvements to the statement of financial position unless work on other areas of the primary financial statements identifies possible improvements to that statement. All 11 Board members agreed with this decision.

Additionally, the Board tentatively decided that segment reporting or the presentation of discontinued operations should not be part of the scope of the project. All 11 Board members agreed with this decision.

March 2017 Board meeting

Earnings before interest and tax (Agenda Paper 21A)

The Board agreed (by consensus) that the staff should continue to explore:

- a. requiring the presentation of an earnings before interest and tax (EBIT) subtotal in the statement(s) of financial performance;
- b. defining EBIT as profit before finance income/expenses and tax; and
- c. describing finance income/expenses as income/expenses related to the entity's capital structure.

The Board asked the staff to consider:

- a. how to define an entity's capital structure; and
- b. whether additional guidance would be needed on the treatment of particular items of income and expense (for example, the net interest on net defined benefit liabilities and income/expenses from investments).

Management operating performance measure (Agenda Paper 21B)

The Board agreed (by consensus) that the staff should continue to explore:

- a. requiring the presentation of a management operating performance measure, rather than seeking to define operating profit, in the statement(s) of financial performance;
- b. allowing items to be excluded from the management operating performance measure as long as the subtotal meets the requirements in existing paragraphs 85, 85A and 85B of IAS 1 *Presentation of Financial Statements*; and
- c. requiring additional disclosures to provide transparency around presentation of the management operating performance measure.

General guidance on classification, aggregation and disaggregation (Agenda Paper 21C)

The Board tentatively decided to develop, along the lines suggested in Agenda Paper 21C:

- a. principles for aggregation and disaggregation in the financial statements;
- b. definitions of the notions 'classification', 'aggregation' and 'disaggregation'; and
- c. guidance on the steps involved in applying 'classification', 'aggregation' and 'disaggregation' when preparing financial statements.

Ten Board members agreed and two disagreed with this decision.

The Board tentatively decided to explore providing more guidance on aggregation characteristics. Eleven Board members agreed and one disagreed.

June 2017 Board meeting

The Board continued its discussion from the March 2017 Board meeting about introducing two subtotals in the statement(s) of financial performance—earnings before finance income/expenses and tax (EBIT) and a management performance measure. No decisions were made at this meeting.

September 2017 Board meeting

Structure of the statement(s) of financial performance—introduction of an investing category and additional subtotals (Agenda Paper 21A)

The Board tentatively decided to prioritise introducing into the statement(s) of financial performance subtotals that facilitate comparisons between entities, such as EBIT, over introducing a management-performance measure subtotal. At a future meeting, the Board will discuss how a management-performance measure could be included in the financial statements. All Board members agreed with this decision.

The Board agreed without voting to explore the introduction of an investing category into the statement(s) of financial performance.

The Board tentatively decided that, if it introduces both an investing category and an EBIT (or profit before financing and income tax) subtotal, finance income or expenses should consist of the following separate line items in the statement(s) of financial performance:

- a. 'income related to capital structure';
- b. 'expenses related to capital structure';
- c. 'interest income on a net defined benefit asset or a net asset that arises when a liability not part of an entity's capital structure qualifies for offset with an asset'; and
- d. 'interest expenses on liabilities not part of an entity's capital structure'.

Ten of 14 Board members agreed and four disagreed with this decision

Analysis of expenses by function and by nature (Agenda Paper 21B)

The Board tentatively decided to:

- a. describe the 'nature of expense' method and the 'function of expense' method used to analyse expenses required by paragraph 99 of IAS 1 Presentation of Financial Statements. Fourteen Board members agreed.
- b. continue to require an entity to provide an analysis of expenses using the methodology, either by-function or by-nature, that provides the most useful information to users. Twelve of 14 Board members agreed with this decision and one member disagreed. One member was absent.
- c. develop criteria that entities could follow to determine whether a by-function or by-nature methodology provides the most useful information to users. One of those criteria would be that a function of expense analysis would not be appropriate if an entity is unable to allocate natural components to the functions presented on a consistent and non-arbitrary basis. Ten of 14 Board members agreed with this decision and three members disagreed. One member was absent.
- d. provide no requirement for entities that use the 'nature of expense' method to provide additional information using the 'function of expense' method. Thirteen of 14 Board members agreed with this decision and one member disagreed.
- e. require an entity to:
 - i. present its primary analysis of expenses in the statement(s) of financial performance; and
 - ii. disclose in a single note any additional information required about expenses (ie an analysis by nature when an entity uses a 'function of expense' method). Fourteen Board members agreed.

November 2017 Board meeting

Presentation of an investing category in the statement(s) of financial performance (Agenda Paper 21A)

The Board tentatively decided:

- a. to relabel the 'investing' category as 'income/expenses from investments'. Twelve Board members agreed and one member disagreed with this decision. One member was absent.
- b. to define 'income/expenses from investments' using a principle-based approach as 'income/expenses from assets that generate a return individually and largely independently of other resources held by the entity'. Eleven Board members agreed and three members disagreed with this decision.
- c. to provide a list of some items that would typically be treated as 'investing' and a list of some items that would typically not be treated as 'investing' for non-financial entities. Thirteen Board members agreed and one member disagreed with this decision.
- d. not to label the subtotal before the 'income/expenses from investments' category as 'operating profit'. Ten Board members agreed and four disagreed with this decision.

The Board did not to reach a decision on the presentation of the share of the profit or loss of associates and joint ventures accounted for using the equity method. The Board therefore directed the staff to include in the project's first due-process document a discussion of the different possible approaches. That discussion would, in particular, consider the following two approaches:

- a. including the share of the profit or loss of all associates and joint ventures accounted for using the equity method within a single category.
- b. including the share of profit or loss of integral associates or joint ventures above the 'income/expenses from investments' category; and the share of profit or loss of non-integral associates or joint ventures within the 'income/expenses from investments' category.

Definition of finance income/expenses (Agenda Paper 21B)

The Board tentatively decided to:

- a. use 'cash and cash equivalents' in the definition of 'finance income/expenses' as a proxy for cash and temporary investments of excess cash. Ten Board members agreed and four members disagreed with this decision.
- b. require that 'finance income/expenses' consist of the following five line items:
 - i. 'interest income from cash and cash equivalents calculated using the effective interest method';
 - ii. 'other income from cash, cash equivalents and financing activities';
 - iii. 'expenses from financing activities';
 - iv. 'other finance income'; and
 - v. 'other finance expenses'.

Twelve Board members agreed and two members disagreed with this decision. Some Board members made some drafting suggestions for the line items. The Board also noted that a separate line item for impairment of cash and cash equivalents may be needed, if material.

- c. clarify the current description of 'financing activities' in IAS 7 *Statement of Cash Flows* by indicating that a financing activity involves:
 - i. the receipt or use of a resource from a provider of finance (or provision of credit).
 - ii. the expectation that the resource will be returned to the provider of finance.
 - iii. the expectation that the provider of finance will be appropriately compensated through the payment of a finance charge. The finance charge is dependent on both the amount of the credit and its duration.

All fourteen Board members agreed. Some Board members made drafting suggestions.

Better ways to communicate other comprehensive income (OCI) (Agenda Paper 21C)

The Board tentatively decided to rename the two categories in the OCI section of the statement(s) of financial performance as follows:

- a. 'remeasurements reported outside profit or loss' (currently 'OCI items that will not be reclassified subsequently to profit or loss'); and
- b. 'income and expenses to be included in profit or loss in the future' (currently 'OCI items that will be reclassified subsequently to profit or loss').

Eight of fourteen Board members agreed and six disagreed with this decision.

The Board tentatively decided not to introduce a new subtotal between the two categories in the OCI section of the statement(s) of financial performance called 'income after remeasurements reported outside profit or loss'. Twelve of fourteen Board members agreed with this decision and two disagreed.

The Board tentatively decided:

- a. that the staff should explore whether there is a demand to remove the following presentation options in IAS 1 *Presentation of Financial Statements* for OCI:
 - i. presenting items of OCI either net of related tax effects, or before related tax effects (paragraph 91 of IAS 1); and
 - ii. presenting reclassification adjustments in the statement(s) of financial performance or in the notes (paragraph 94 of IAS 1).

All Board members agreed with this decision.

- b. not to develop separate guidance or educational material on the presentation of other comprehensive income for entities, but to consider both profit or loss and OCI when developing proposals for better aggregation/disaggregation and additional minimum line items. Thirteen of fourteen Board members agreed with this decision and one abstained.
- c. not to develop educational material for investors in the form of case studies that illustrate why it is important for users of financial statements to consider items of OCI in their analysis of companies. All Board members agreed with this decision.