

STAFF PAPER

June 2017

IASB[®] Meeting

Project	Primary Financial Statements		
Paper topic	Cover note		
CONTACT(S)	Michelle Fisher	mfisher@ifrs.org	+44 (0)20 7246 6918
	Karlien Conings	kconings@ifrs.org	+44 (0)20 7246 6913

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (the Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS[®] Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB *Update*.

Purpose of the meeting

1. At this meeting, we will follow up on the discussions at the March 2017 Board meeting about introducing two additional subtotals in the statement(s) of financial performance —earnings before finance income/expenses and tax (EBIT) and a management performance measure.¹ We will also discuss two related topics. The purpose of this meeting is to ask the Board to reach tentative views on these topics.

Papers for this meeting

2. The papers being presented at this meeting are:
 - (a) **Earnings before finance income/expenses and tax (EBIT)—approaches for describing capital structure (AP 21A)**: proposals for how we should describe the term ‘capital structure’ (to be used in our definition of finance income/expenses);
 - (b) **Earnings before finance income/expenses and tax (EBIT)—development of principles-based approach (AP 21B)**: sets out further

¹ At the March 2017 Board meeting, we called this subtotal a ‘management operating performance measure’. We have shortened the label of the subtotal for this Board meeting, but the nature of the subtotal has not changed.

issues to address if the Board supports the staff recommendation of a principles-based approach to describing capital structure in Agenda Paper 21A;

- (c) **Management performance measure (AP 21C):** improved proposals for a new subtotal—a management performance measure—in the statement(s) of financial performance;
- (d) **Adjusted earnings per share (EPS) (AP 21D):** proposals for additional guidance on the presentation of adjusted earnings per share in financial statements; and
- (e) **Presentation of the share of the profit or loss of associates and joint ventures accounted for using the equity method (AP 21E):** proposals to prescribe the location for the share of the profit or loss of associates and joint ventures in the statement(s) of financial performance.

Link between the papers

3. We have heard from many users that they would like additional required subtotals in the statement(s) of financial performance, especially ones that provide relatively comparable anchor points within that statement. On the other hand, preparers would prefer the flexibility to tell their own story using management-defined performance measures. The papers presented in this meeting consider these different needs and are interrelated in the following ways:
 - (a) by proposing a comparable EBIT subtotal (Agenda Papers 21A and 21B) in combination with a management performance measure (Agenda Paper 21C), we intend to address the needs for both comparability and flexibility in the statement(s) of financial performance. The explanation and disclosure of reconciling items between the management performance measure and the comparable EBIT subtotal would help users understand how management performance measures differ across entities.
 - (b) Agenda Paper 21D proposes requiring entities to calculate an adjusted EPS and a management performance measure consistently when both are

presented in the financial statements (and so is linked to Agenda Paper 21C). The requirement for a consistent calculation of these measures means that the constraints applied to the management performance measure also apply to the adjusted EPS calculation. In addition, disclosures about the items excluded from the management performance measure enable users to understand how the entity calculated adjusted EPS.

- (c) Agenda Paper 21E discusses the location of the share of the profit or loss of associates and joint ventures relative to the EBIT and management performance measure subtotals in the statement(s) of financial performance.

Next steps

- 4. At future Board meetings, we plan to discuss:
 - (a) principles of aggregation and disaggregation, including the need for additional minimum line items;
 - (b) development of illustrative examples/templates for the primary financial statements for a few industries;
 - (c) targeted improvements in the statement of cash flows:
 - (i) elimination of options for the classification of the cash effects of interest and dividends in the statement of cash flows;
 - (ii) alignment of the operating section across the statement of cash flows and the statement(s) of financial performance; and
 - (iii) requiring a consistent starting point for the indirect reconciliation of cash flows; and
 - (d) better ways to communicate information about other comprehensive income.

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.