

## STAFF PAPER

November 2017

IASB<sup>®</sup> Meeting

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

1. At this meeting, we will follow up on the discussions from the September 2017 Board meeting about the staff proposals for introducing an investing category and two additional subtotals—‘profit before investing, financing and income tax’ and EBIT (or ‘profit before financing and income tax’)—into the statement(s) of financial performance. We will also discuss a new topic, better ways to communicate information about other comprehensive income.

**Papers for this meeting**

2. This Agenda Paper (**Agenda Paper 21**) provides the following background information for the Board:
  - (a) planned next steps (paragraph 6);
  - (b) Appendix A—summary of tentative decisions to date;

3. **Agenda Paper 21A** sets out the staff's proposals for introducing an investing category into the statement(s) of financial performance.
4. **Agenda Paper 21B** sets out the staff's proposals for defining finance income/expenses (the 'I' in EBIT).
5. **Agenda Paper 21C** sets out the staff's proposals for improving the presentation of other comprehensive income (OCI).

### **Next steps**

6. At future Board meetings, we plan to discuss:
  - (a) how to develop the proposals for this meeting further to address more complex scenarios, for example entities providing financial services;
  - (b) guidance on the use of performance measures including a management performance measure subtotal and alternative earnings per share measures;
  - (c) other 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) some targeted improvements in the statement of cash flows.

## **Appendix A—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.