

# Primary Financial Statements

## *Project update*

Michelle Fisher, Senior Technical Manager  
Capital Markets Advisory Committee meeting  
20 October 2017

Agenda paper 3

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (Board) or IFRS Foundation.

- Overview
- Summary of discussions at June 2017  
CMAC/GPF meeting and Board meeting
- Summary of discussions at September 2017  
Board meeting
- Next steps

# Overview

# Project scope—topics to explore

4

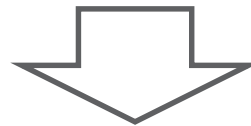
## Primary Financial Statements

Statement(s)  
of financial  
performance

Statement of  
cash flows

Statement of  
financial  
position

Statement of  
changes in  
equity



- ✓ Requiring EBIT subtotal
- ✓ Providing guidance on presentation of management performance measure and alternative EPS
- ✓ Better ways to communicate OCI

- ✓ Eliminating classification options (interest/dividends)
- ✓ Aligning the operating section between the statements of cash flows and financial performance
- ✓ Requiring a consistent starting point for the indirect method

- ✗ No planned change, except for templates and greater disaggregation
- ✓ Project on financial instruments with characteristics of equity looks at some issues

✓ Developing templates for primary financial statements

✓ Achieving greater disaggregation

- Presentation of subtotals in the statement(s) of financial performance (to provide comparability and flexibility)  
**for non-financial entities:**
  - Comparable EBIT subtotal
  - Flexible management performance measure
- Improving disaggregation:
  - Disaggregation and aggregation principles
  - Improving requirements for disaggregation of expenses by nature/function

# June 2017 CMAC/GPF meeting and Board meeting

*Subtotals in the statement(s) of financial performance*

# Staff proposals—subtotals (1/2)

Two subtotals may help to better communicate entities' performance:

**Flexibility** - Performance measure that management uses to communicate progress towards its business objective or strategy

Items between two subtotals show how an entity's Management Performance Measure is different from EBIT

**Comparability** - Introducing a comparable performance measure among entities as an 'anchor'

Revenue	10,000
Cost of goods sold	<u>-4,000</u>
Gross profit	6,000
Selling, general and admin costs (SG&A)	<u>-2,500</u>
<b>Management performance measure</b>	<b>3,500</b>
Restructuring expenses	<u>-500</u>
<b>EBIT</b>	<b>3,000</b>
Finance income	200
Finance expenses	<u>-1,200</u>
Pre-tax profit	2,000
Taxation	<u>-600</u>
Profit	1,400

# Staff proposals—subtotals (2/2)

Proposed definition for **finance income/expenses**:

- income/expenses related to an entity's capital structure; and
- interest on assets and liabilities not part of an entity's capital structure.

Proposed definition for **capital structure**:

Equity, assets and liabilities arising from financing activities, and cash and cash equivalents



# Feedback received from CMAC/GPF

- many members **supported** requiring an **EBIT subtotal**, to provide a comparable starting point for users' analysis
- **different views** on which liabilities are part of **capital structure** (eg net defined benefit and decommissioning liabilities)
- **different views** on whether **cash and cash equivalents** as a proxy for cash and temporary investments of excess cash in the definition of capital structure is **too narrow**
- some members **supported** the presentation of a **management performance measure** in the statement(s) of financial performance



# September 2017 Board meeting

*Subtotals and by function/nature analysis of expenses*

# Revised staff proposals—subtotals (1/2)

11

Prioritise introduction of comparable subtotals over MPM

Investing category ('no significant synergies with the entity's other resources')

Revenue	10,000
Cost of goods sold	<u>-4,000</u>
Gross profit	6,000
Selling, general and admin costs (SG&A)	<u>-2,000</u>
Management performance measure	4,000
Restructuring expenses	<u>-1,000</u>
<b>Profit before investing, financing and income tax</b>	<b>3,000</b>
Fair value gains (losses) on equity instruments	250
Other investing income	50
<b>Profit before financing and income tax</b>	<b>3,300</b>
Income related to capital structure	200
Expenses related to capital structure	-1,000
Interest income on a net defined benefit asset or a net asset that arises from offset with a liability not part of capital structure	50
Interest expenses on liabilities not part of capital structure	<u>-450</u>
Pre-tax profit	2,100

Proposed definition for **finance income/expenses**:

- Income/expenses related to the entity's capital structure; and
- Interest expenses on liabilities not part of capital structure (and any interest income on a net defined benefit asset or a net asset that arises when a liability not part of capital structure qualifies for offset with an asset).

Proposed definition for **capital structure** [unchanged for now]:

Equity, assets and liabilities arising from financing activities, and cash and cash equivalents

The Board tentatively agreed to explore introducing an **investing category**, but did not reach a consensus and asked the staff to perform further work on:

- the definition and objective of the investing category
- the location of the share of profit or loss of associates and joint ventures (ie a single location or not)
- whether or not to treat some cash and liquid investments ('excess cash') as part of capital structure
- where to classify interest on 'operating' liabilities, such as net defined benefit and decommissioning liabilities

The Board tentatively decided to:

- **describe** the 'nature' and 'function' of expense methods
- **retain the choice of method**, but develop **criteria** for entities to determine which methodology provides the **most useful** information to users
- require entities to present their **primary analysis** of expenses in the **statement(s) of financial performance** and to 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).

# Next steps

- Continue *exploring* targeted improvements, with Board discussions throughout 2017
- Implications regarding structured electronic reporting will be examined as relevant
- Possible output: Discussion Paper or Exposure Draft H1 2018
- Broad outreach with users will take place after publication of Discussion Paper or Exposure Draft



# Topics to discuss at future Board meetings<sup>1</sup>

- **Performance subtotals** for **more complex scenarios**, for example entities providing financial services
- Guidance on a **management performance measure** subtotal and **alternative EPS** measures
- Better communication of **other comprehensive income**
- Other principles of **aggregation and disaggregation**, including the need for additional minimum line items
- **Illustrative examples/templates** for the primary financial statements for a few industries
- Targeted improvements in the **statement of cash flows**

<sup>1</sup>In addition to the topics listed on slide 13

# Contact us

18

## Keep up to date



@IFRSFoundation



IFRS Foundation



[www.ifrs.org](http://www.ifrs.org)



IFRS Foundation

## Comment on our work



[go.ifrs.org/comment](http://go.ifrs.org/comment)