

Primary Financial Statements

Project update

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Capital Markets Advisory Committee meeting
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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

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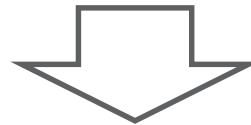
Primary Financial Statements

Statement(s)
of financial
performance



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

Statement of
cash flows



- ✓ 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

Statement of
financial
position

Statement of
changes in
equity



- ✗ 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)

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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>
Management performance measure	3,500
Restructuring expenses	<u>-500</u>
EBIT	3,000
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)

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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

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- 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)

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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>
Profit before investing, financing and income tax	3,000
Fair value gains (losses) on equity instruments	250
Other investing income	50
Profit before financing and income tax	3,300
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

Revised staff proposals—subtotals (2/2)

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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

Activities in the next 12 months

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- 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 meetings¹

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- **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**

¹In addition to the topics listed on slide 13

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