



Primary Financial Statements

Project summary

CONTACT: Aida Vatrenejak avatrenejak@ifrs.org +44 (0) 20 7246 6456

This paper has been prepared for discussion at a public educational meeting of the US Financial Accounting Standards Board (the FASB) and the International Accounting Standards Board (the IASB). It does not represent the views of the boards or any individual member of either board. Comments on the application of IFRS® Standards or US GAAP do not purport to set out acceptable or unacceptable application of IFRS Standards or US GAAP. Technical decisions are made in public and reported in FASB Action Alert or in IASB Update.

Agenda

2

Slides

Project objective and scope

3-10

Tentative IASB decisions – improving disaggregation

11-16

Future topics for discussion

17-20

Questions for the FASB are on slides 10, 16 and 20

Project objective and scope

Central theme of the IASB's work

4

Better Communication in Financial Reporting

Financial statements

Primary
Financial
Statements

Disclosure
Initiative

Information outside the financial statements

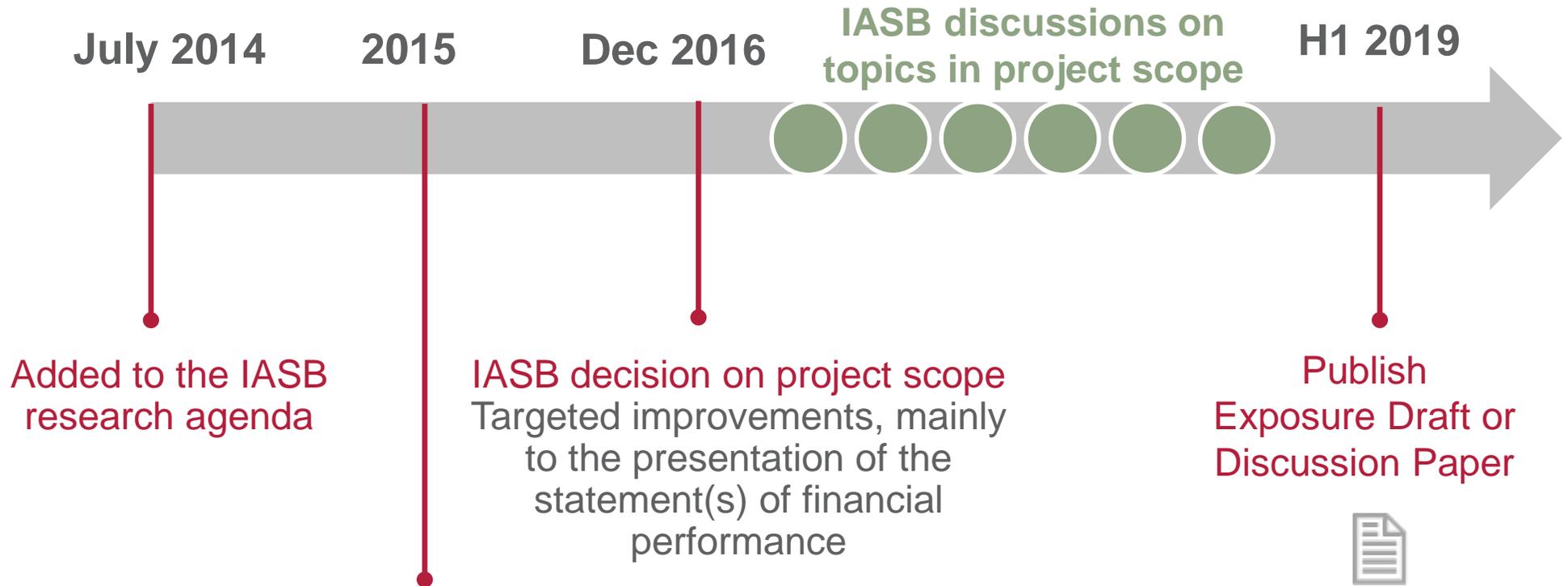
Management
Commentary

Content

Delivery

IFRS Taxonomy

Project timeline



Agenda Consultation

Respondents identified the project as a priority and recommended focusing on the statement(s) of financial performance

Problems with the statement(s) of financial performance

Structure and content of statement(s) of financial performance varies even within the same industry

Inconsistencies in calculation of subtotals, even within the same industry (eg treatment of associates/JVs)

Insufficient disaggregation of information

Presentation alternatives reduce comparability

Some companies communicate performance mainly through Alternative Performance Measures

Alternative performance measures – feedback

Increasing use of alternative performance measures indicates that financial statements are losing their relevance

Alternative performance measures can provide relevant information

Alternative performance measures are misleading investors

By presenting more alternative performance measures in financial statements, transparency and discipline will be enhanced and measures will be audited

The IASB should develop mechanisms to allow preparers to present more alternative performance measures in financial statements

Comparability vs flexibility – feedback

Lack of comparability negatively affects usefulness of IFRS financial information

Flexibility allows preparers to tell their own story

Due to lack of comparability, users prefer financial statements 'standardised' by data aggregators

As long as necessary information is available in the notes, primary financial statements can be concise

Recognition and measurement should be principles-based but presentation should be more structured

IFRS Standards should keep their principles-based nature

Scope of the project

Statement(s) of financial performance

Subtotals & categories facilitating comparisons between entities:

- Finance income/expense
- Income/expenses from investments
- Presentation of associates/JVs

Management performance measures

Better ways to communicate OCI

Statement of cash flows

Eliminating classification options (interest/dividends)

Consistent starting point for the indirect method

Cash flows related to associates/JVs

Improving disaggregation in financial statements

Principles of disaggregation in financial statements

Disaggregation by nature and by function in the statement(s) of financial performance

Minimum line items in primary financial statements

Templates for primary financial statements

All tentative decisions on project apply to non-financial entities only

Question 1 for the FASB

- Before we discuss the IASB's work on improving disaggregation, do the FASB members have questions or comments on the project scope or the IASB's tentative decisions in other project areas (Agenda Paper 21A provides a comprehensive overview of the IASB's tentative decisions)?

Tentative IASB decisions— Improving disaggregation

Principles of disaggregation in the financial statements

- Develop **principles** for aggregation and disaggregation in the financial statements;
- Develop **guidance on the steps involved** in applying ‘classification’, ‘aggregation’ and ‘disaggregation’ when preparing financial statements.

Disaggregation by nature/by function within the business profit subtotal

Describe the by-nature method and by-function method

Develop **guidance** for determining whether a by-function or by-nature method provides the **most useful information** to users (see slide 14)

Require **additional information on the nature** of expenses when an entity uses the by-function method (see slide 15)

Minimum lines items in primary financial statements

Explore amendments to minimum lines items required in IAS 1

Developing templates for primary financial statements

Explore development of templates for a small number of industries.

Quantitative thresholds

- The IASB considered, but tentatively decided **not** to introduce quantitative thresholds to promote more disaggregation.

Advantages	Disadvantages
<ul style="list-style-type: none">• potentially 'forces' greater disaggregation, resulting in more relevant information• more enforceable than qualitative requirements or principles	<ul style="list-style-type: none">• may override materiality judgements• it could be difficult for the IASB to develop quantitative thresholds

- Instead, the IASB asked the staff to explore whether **principle-based guidance** could be developed to encourage further disaggregation of **large residual balances or 'other' balances**.

Analysis of expenses in the statement(s) of financial performance

14

Determine whether by function or by nature method provides the **most useful information**



Factors to consider

Which method provides best information about the **key components** or **drivers of profitability**?

Which method matches **internal reporting** best?

What is **peer industry practice**?

Can allocation of expenses to functions **faithfully represent** those functions?

Disaggregating functional line items by nature

The IASB considered the following approaches for disclosing additional information in the notes when an entity uses a by-function approach in the statement(s) of financial performance:

A

require disaggregation by nature for each functional line item

entity has flexibility to decide which natural components are disclosed

B

require disaggregation by nature for each functional line item

IASB specifies which natural components should be disclosed

C

require additional information by nature at an entity level, not as a breakdown of each functional line presented

This is the IASB's preferred approach

Question 2 for the FASB

- In the light of FASB's work on disaggregation, do FASB members have thoughts or comments on the IASB's preferred approach to disaggregation of functional line items on slide 15?

Future topics for discussion

Future topics for discussion

18

Disaggregation

Industry-specific illustrative examples/templates

Further guidance on disaggregation

Financial performance

Guidance on the presentation and definition of EBITDA

Disclosure of information about unusual or infrequently occurring items

Application of proposals to financial entities

First due process document—Discussion Paper or Exposure Draft?

Financial entities have been excluded so far
(banks, insurers, investment entities, investment property companies, some conglomerates)

- The IASB will discuss application of project proposals to financial entities and decide whether to:
 - apply the same principles to financial entities
 - adjust the principles/specific provisions for application by financial entities
 - scope out/have different principles for financial entities

Question 3 for the FASB

- Do the FASB members have any thoughts or comments on the application of the respective projects to financial entities?

Get involved

Find out more: www.ifrs.org

Follow us:



@IFRSFoundation



IFRS Foundation
International Accounting Standards Board



IFRS Foundation



IFRS Foundation

Join our team: go.ifrs.org/careers