STAFF PAPER

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Project	**Primary Financial Statements**
Paper topic	Amending proposals for management performance measures (MPMs)

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Purpose of this paper

1. This Agenda Paper considers the need for amendments to the Board's proposals on management performance measures (MPMs) in the light of:
   (a) feedback on the proposals so far; and
   (b) tentative decisions made since the Board last discussed MPMs.

Summary of staff recommendations in this paper

2. The staff recommend that the Board:
   (a) clarify that MPMs are subject to the general requirement that information included in the financial statements must provide a faithful representation;
   (b) make no specific statement that MPMs should not be misleading;
   (c) do not place specific constraints on how MPMs should be calculated (for example prohibiting the use of tailor-made accounting policies);
   (d) state that entities can only identify a measure as an MPM if they use the same measure in their public communications with users outside the financial statements; and
   (e) require entities to identify any income or expenses that meet the definition of unusual items that are excluded from the entity's MPMs.

Overview

3. This paper is structured as follows:

   (a) why are we proposing MPM disclosures? (paragraphs 4–9)

   (b) what are the Board's tentative decisions on MPMs? (paragraphs 10–14)

   (c) what feedback have we received on the proposals? (paragraphs 15–22)

   (d) how has staff analysed the concerns? (paragraphs 23–52)

   (e) how can we help ensure that MPMs are not misleading? (paragraphs 53–71)

   (f) should we make a clearer link between communications outside financial statements and MPMs? (paragraphs 72–80)

   (g) do we need to update the MPM proposals for the Board's recent tentative decisions on unusual items? (paragraphs 81–83)

Why are we proposing MPM disclosures?

4. The main focus of this project is on making improvements to the structure and content of the statement(s) of financial performance, including the addition of defined, new subtotals. These improvements respond to requests from users for additional comparable subtotals that they can use in their analysis.

5. Users have told us that, in addition to defined and comparable subtotals, measures of performance defined by entities (sometimes referred to as alternative performance measures, APMs) can provide relevant information. Such measures are useful[1] because they help users:

   (a) understand how management views the entity's financial performance. Understanding how management views an entity's financial performance can provide insight into how the business is managed.

   (b) obtain insight into the persistence or sustainability of an entity's financial performance. Management often identifies, and adjusts, for non-recurring or infrequently occurring items when providing its performance measures.

[1] CFA member survey 'Investor uses, expectations and concerns on non-GAAP financial measures'

(c) adjust for the effects of particular accounting requirements in their analysis. For example, some users[2] seek to undo effects of acquisition accounting requirements that result in items arising on an acquisition being recognised and measured differently from similar items that do not arise from an acquisition. These users consider that these transitory differences adversely affect comparability. Management sometimes makes adjustments to undo the effect of applying specific accounting requirements.

6. However, users find that the calculation of and reasons for providing these measures lack transparency. Users have also commented that, when provided, this information is often difficult to find.

7. In addition, the quality of the disclosures provided about these measures varies between jurisdictions. The quality of the information provided depends on whether the measures are subject to regulation, the nature of those regulations and how strictly the regulations are enforced. For example, it is not always clear from the disclosures how exactly these measures relate to IFRS-defined measures reported in the financial statements or how and why the calculation of a measure has changed since the previous reporting period.

8. Finally, these measures are often provided outside the financial statements. Because information presented outside the financial statements is usually not audited, users have less confidence in the information than they would have had the information been audited.

9. Consequently, the objectives of the MPM proposals are to:

(a) provide relevant information to users about the financial performance of the entity thereby increasing the relevance of financial statements; and

(b) improve the disclosures about MPMs, providing greater transparency about how the measures are selected and calculated thereby contributing towards the faithful representation of information about financial performance.

[2] Pages 23–25 of CFA member survey ‘Investor uses, expectations and concerns on non-GAAP financial measures’.

What are the Board's tentative decisions on MPMs?

10. The Board has tentatively decided that entities should identify a measure (or measures) of profit or comprehensive income that, in the view of management, communicates to users the financial performance of the entity. This measure will:

    (a) often be a subtotal or total specified by paragraph 81A of IAS 1 *Presentation of Financial Statements*, as revised by the Board's tentative decisions[3];

    (b) sometimes be identified by management as a measure that is not a subtotal or total specified by paragraph 81A of IAS 1, but would complement such subtotals or totals. Such a measure is an MPM.

11. The Board also tentatively decided that there should be no specific constraints on MPMs.

12. The Board tentatively decided to:

    (a) require disclosure of a reconciliation between the MPM and the most directly comparable subtotal or total required by paragraph 81A of IAS 1;

    (b) require disclosure of the tax effect and effect on non-controlling interests of each of the adjustments between the MPM and the most directly comparable IFRS total or subtotal;

    (c) require that MPMs be labelled in a clear and understandable way so as not to mislead users;

    (d) prohibit the use of columns to present MPMs in the statement(s) of financial performance; and

    (e) require the following:

        (i) a statement that the measure provides management's view of the entity's financial performance and is not necessarily comparable with measures provided by other entities;

[3] For the purposes of these proposals, paragraph 81A of IAS 1 would include the existing subtotals in that paragraph and the proposed new subtotals developed as part of this project, for example, operating profit.

(ii) a description of why the MPM provides management's view of performance, including an explanation of how the MPM has been calculated and why;

(iii) an explanation of how the MPM provides useful information about an entity's financial performance; and

(iv) sufficient explanation to enable users to understand the reasons for and effect of a change in how the MPM is calculated.

13. In addition, the Board tentatively decided that the reconciliation between an MPM and the most directly comparable subtotal or total required by paragraph 81A of IAS 1 should be provided separately from the operating segment information disclosed in accordance with IFRS 8 *Operating Segments*. However, entities would not be prohibited from also including MPMs within the operating segment information. Furthermore, the following information would be required to be disclosed:

(a) an explanation of how the MPM differs from the total of the measures of profit or loss for the reportable segments; and

(b) if none of the MPMs fit into the operating segment information, an explanation of why this is the case.

14. The Board tentatively decided to expand the list of subtotals and totals that would not be considered MPMs to include the following commonly used subtotals:

(a) profit before tax;

(b) profit from continuing operations;

(c) operating profit before depreciation and amortisation; and

(d) gross profit, described as revenue less cost of sales.

What feedback have we received on the proposals?

15. Since the Board last discussed MPMs, the staff discussed the Board's proposals for MPMs in 12 general project outreach meetings. Meetings, with users, preparers, standard-setters and regulators, included public meetings with:

(a) Global Preparers Forum (GPF) in November 2018;

(b) Capital Markets Advisory Committee (CMAC) in November 2018; and

(c) Accounting Standards Advisory Forum (ASAF) in December 2018.

16. Users of financial statements (including CMAC, UK Corporate Reporting Users Forum and European Federation of Financial Analysts) expressed support for the MPM proposals because they find information about MPMs useful and:

(a) the proposals would increase the transparency of, and discipline applied to APMs—giving users more confidence in these measures;

(b) the proposals to increase the transparency of adjustments including the proposed disclosures will provide users with the information needed to determine which adjustments they want to make in their analysis;

(c) the information provided will include information about the tax and NCI effect of each adjustment which is useful and usually not disclosed today; and

(d) the proposals would require information about MPMs to be provided in one place, increasing the efficiency of users' analysis of the information.

17. ASAF and GPF were generally supportive of the proposals; in their assessment of the effects they said they thought the proposals would improve economic decision-making by investors and increase transparency and rigour. However, some members raised practical issues relating to the proposed required disclosure of tax and the NCI effects for each adjustment as well as the relationship with the segment measure(s) of performance[4].

18. However, our outreach with securities regulators indicated significant concerns about the possible effect of the proposals, and this led the staff to organise further outreach with individual securities regulators focussing on this topic only.

Feedback from targeted outreach with securities regulators

19. We held 11 meetings with regulators from major jurisdictions in Africa, Americas, Asia, Australia and Europe. The purpose of those meetings was to better understand, for each jurisdiction:

[4] We do not analyse practical concerns raised by GPF and ASAF in this paper. We plan to consider these concerns as part of a potential package of sweep issues at a future meeting.

(a) the regulatory landscape;

(b) the expected effect of the MPM proposals; and

(c) the views of the regulators on the MPM proposals.

20. Some regulators were supportive of the proposals, agreeing with the Board that they would enable relevant information to be included in the financial statements.

21. However, many regulators expressed concerns about the proposals. The key concerns raised by regulators were:

(a) some regulators think IFRS financial statements should only include IFRS-specified measures which are comparable among entities. In their view management defined measures belong in management commentary.

(b) some regulators think that the proposals would give MPMs undue legitimacy.

(c) some regulators think that some adjustments made to IFRS-specified measures to arrive at the MPMs cannot be audited meaningfully—for example, adjustments made when an entity uses a tailor-made accounting policy.

(d) some regulators think the proposals could lead to a proliferation of non-GAAP measures, particularly if there are few constraints imposed on such measures.

(e) some regulators think there is a risk of MPMs being given undue prominence, especially if presented in the statement(s) of financial performance.

(f) some regulators think that the lack of specific constraints on MPMs could lead to entities disclosing MPMs that are incomplete or biased and hence misleading. Regulators expressed particular concern that non-professional investors might be misled by such measures. In addition, some regulators said that measures calculated using tailor-made accounting policies could be particularly misleading (for example measures designed to reverse the effects of recent IFRS Standards).

22. In our discussions with regulators, we clarified that most MPMs are expected to be disclosed in the notes. After we clarified this, some regulators were more supportive of the proposals.

How has the staff analysed the concerns?

23. The staff have analysed the following concerns raised by regulators:

    (a) comparability (see paragraphs 24–30);

    (b) legitimacy (see paragraphs 31–32);

    (c) meaningful audit of MPMs (see paragraphs 33–35);

    (d) proliferation of non-GAAP measures (see paragraphs 36–39);

    (e) prominence of MPMs (paragraphs 40–48); and

    (f) misleading MPMs (see paragraphs 49–52).

Concern about comparability

24. MPMs are, by definition, measures of performance specified by management; they are not measures specified by IFRS Standards. Consequently, they are not necessarily comparable between entities. The Board recognises this and is proposing to require entities to disclose the fact that MPMs are not necessarily comparable (see paragraph 12(e) (i)).

25. Comparability is an enhancing qualitative characteristic of useful financial information; however, the fundamental qualitative characteristics of useful financial information are relevance and faithful representation. Including MPMs in the financial statements has the potential to make the financial statements more relevant. A decision to include MPMs in the financial statements would imply that the Board considers that the benefits of increased relevance outweigh the risks of limited comparability. We also note that an MPM is a measure that complements IFRS-specified subtotals which are comparable.

26. IFRS Standards already acknowledge that additional information may be useful to users and should be provided, even when not specified by IFRS Standards. For example, paragraph 85A of IAS 1 requires entities to present additional subtotals

when they provide relevant information. Similarly, IFRS 8 requires entities to report a measure of profit or loss for each reportable segment, which is defined by entity.

27. Consequently, the staff do not think that concerns about comparability of MPMs *between* entities should prevent entities from including MPMs in the financial statements.

28. However, we would expect MPMs to be comparable *over time* for the same reporting entity. The requirements of paragraph 45 of IAS 1 may help to ensure comparability over time:

> An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IAS 8…

29. We consider that, in drafting the consultation document, it might be helpful to clarify that paragraph 45 of IAS 1 applies to MPMs.

30. We also note that the Board has proposed a disclosure requirement for entities that make changes to their MPMs (see paragraph 12(e)(iv)).

Concern about legitimacy of MPMs

31. Regulators have expressed concerns that including MPMs in the financial statements may give legitimacy to measures that are not defined by IFRS Standards and may be misleading. In particular, regulators are concerned that including MPMs in the financial statements will lead users to conclude that these measures are of a similar quality and status to IFRS defined measures.

32. We think that this concern can, in part, be addressed by the proposed disclosure requirements for MPMs. In particular, the proposal to require entities to disclose the fact that the measures are defined by management and are not necessarily comparable should help clarify that these measures are not of the same status and qualify as IFRS measures (see paragraph 12(e)(i)). We discuss concerns about these measures being misleading in paragraphs 49–52 and how we could address them in paragraphs 53–71.

Concern about audit of MPMs

33. Regulators in most jurisdictions do not require information presented outside the financial statements, including APMs, to be audited. By bringing these measures in the financial statements, they are generally expected to be subject to audit.

34. Some regulators have expressed concerns about whether MPMs can be audited. However, we do not share these concerns. Financial statements already include items not specifically defined by IFRS Standards. For example, entities are required, in accordance with IFRS 8, to provide management-defined measures in their segment reports. In most jurisdictions, these disclosures are audited.

35. We acknowledge that in cases of some MPMs (such as measures based on tailor-made accounting policies) the audit work may be restricted to checking that the measure has been calculated in accordance with the entity's definition of the measure and that the entity has complied with the disclosure requirements for MPMs. However, we do not think that this should prevent these measures from being included in audited financial statements.

Concern about proliferation of non-GAAP measures

36. We considered two concerns relating to proliferation of non-GAAP measures:

    (a) entities that do not currently disclose MPMs may decide to do so as a result of the Board's proposals; and

    (b) entities that currently disclose MPMs may decide to disclose more of these measures.

37. In response to the first concern, we note that the Board's proposals do not require entities to identify any MPMs. Consequently, entities that do not think that an MPM will provide relevant information to their users will not be required to disclose an MPM. In addition, as noted in paragraph 5, users have told us that MPMs can provide relevant information. Consequently, we are of the view that we should not be concerned if entities identify an MPM, as long as they are accompanied by the proposed disclosures.

38. In response to the second concern, we acknowledge that the Board's proposals do not limit the number of MPMs an entity can identify. However, it is unclear whether

entities would disclose more MPMs than they do today. For example, it could also be that:

(a) the proposals will lead to entities disclosing fewer MPMs, due to the costs associated with complying with the disclosure requirements and the audit of disclosures in the financial statements. Also, disclosing many MPMs may create confusion for which investors might penalise entities.

(b) the proposals for new subtotals may make some MPMs unnecessary. For example, we identified operating profit as one of most commonly used APMs today. It may be that some entities decide to communicate using the Board's defined operating profit and stop using an APM representing adjusted operating profit.

39. The staff therefore do not think the Board needs to specifically consider discouraging entities from disclosing MPMs or limiting the number of MPMs an entity could disclose.

Concern about prominence

40. We considered two concerns relating to the prominence of MPMs:

(a) prominence of MPMs within financial statements; and

(b) prominence of MPMs outside financial statements.

Prominence of MPMs within financial statements

41. Any MPMs presented as a subtotal in the statement(s) of financial performance would need to comply with the requirement in paragraph 85A(d) of IAS 1, namely:

> [the subtotal shall] not be displayed with more prominence than the subtotals and totals required in IFRS for the statement(s) presenting profit or loss and other comprehensive income.

42. However, the staff think MPMs would rarely be presented in the statement(s) of financial performance because few would fit the new structure of that statement and meet the requirements of paragraph 85A of IAS 1.

43. We therefore think that most MPMs will be disclosed in the notes to the financial statements. We think that an MPM disclosed in a note is less prominent than a subtotal presented in the statement(s) of financial performance.

44. Considering the above, we think it is unlikely that MPMs would have more prominence in the financial statements than the performance measures required by IFRS Standards.

Prominence of MPMs outside financial statements

45. Some regulators were concerned that including MPMs in the financial statements would mean they would be treated as IFRS-defined measures. In other words, the concern was that MPMs would not be subject to regulatory guidance specifying that non-IFRS measures reported outside the financial statements should be disclosed with equal or less prominence than IFRS measures.

46. We agree that MPMs should not be given greater prominence than IFRS-defined measures. However, we think the issue here is how the regulators draft their guidance. We think it should be possible for regulators to make it clear in their guidance that their rules on prominence of non-IFRS measures apply to MPMs.

47. In Agenda Paper 21A discussed in January 2018, the staff suggested that the Board make an explicit statement that MPMs are not IFRS-defined measures. However, the Board concluded that such an explicit statement was unnecessary.

48. We agree that such an explicit statement may not be necessary as the definition of an MPM is that it is a measure not specified in IAS 1 (paragraph 10(b)).

Concern about MPMs being misleading

Why are there no specific constraints on MPMs?

49. In AP21A discussed at the January 2018 Board meeting, the staff did not recommend setting specific constraints on MPMs because:

    (a) specific constraints could prevent management from providing their view of the entity's performance thereby undermining the objective of MPMs;

(b) constraints might encourage entities to present their performance measures outside the financial statements, where the Board's proposed disclosures to improve the transparency of performance measures would not apply; and

(c) the staff considered that paragraph 15 of IAS 1 requiring fair presentation (which in turn requires faithful representation) would apply to MPMs.

50. Paragraphs 15 of IAS 1 states:

> Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework for Financial Reporting (Conceptual Framework). The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

51. In addition, we think there is another general constraint on an MPM in that, just like items in the rest of the financial statements, the measure relates to performance in the reporting period. In other words, MPM cannot be a measure which assumes transactions have happened at a different date than their actual date (sometimes referred to as pro forma measures) or a measure of expected future performance.

52. Therefore, the Board's proposals for MPMs focussed on disclosures and labelling of MPMs rather than specific constraints.

How can we help ensure that MPMs are not misleading?

53. We have considered three approaches which could help ensure that MPMs are not misleading:

(a) provide guidance on what faithful representation means in the context of MPMs (paragraphs 54–56);

(b) state that MPMs should not be misleading (paragraphs 57–61); and/or

(c) specify specific constraints on how MPMs could be calculated (paragraphs 62–67).

Provide guidance on what faithful representation means in the context of MPMs

54. As discussed in paragraph 49(c), we think that MPMs would be subject to the general requirement in paragraph 15 of IAS 1 for information to provide a faithful representation. We think that it would be helpful to clarify this point in the consultation document.

55. We acknowledge that, assessing whether an MPM provides a faithful representation requires the exercise of judgement. As with all judgements, this means that there could be different views about whether a particular MPM provides a faithful representation.

56. However, we are not recommending that the Board develops specific guidance to help entities exercise this judgement. This is because:

    (a) the *Conceptual Framework for Financial Reporting* already describes what is needed to achieve a faithful representation (the information should be complete, neutral and free from error); and

    (b) whether or not a particular measure provides a faithful representation is likely to depend on the particular facts and circumstances.

State that MPMs should not be misleading

57. As discussed in paragraph 49(c), we think MPMs would be subject to the general requirement for information in the financial statements to provide a faithful representation. In other words, entities would be required to faithfully represent a measure that communicates the entities' financial performance to the users of financial statements, in the view of management (if the measure is not specified in IAS 1). We think that information that provides a faithful representation would not be misleading.

58. As a term, misleading is used in a number of older IFRS Standards, however it is not a defined term[5].

59. Explicitly stating that MPMs should not be misleading could be advantageous. Specifically, it would make a clear link between the Board's requirements on MPMs and guidance produced by some regulators who prohibit the disclosure of alternative performance measures that are considered misleading. This would give regulators more leverage to push back on entities disclosing measures that the regulators consider misleading.

60. However, we do not recommend introducing the misleading constraint for MPMs because:

    (a) IFRS Standards contain no guidance on how to interpret misleading, potentially leading to interpretation requests.

    (b) the constraint may lead stakeholders to wonder whether misleading is different from not achieving a faithful representation, which we do not think is the case.

    (c) regulators have developed guidance on what is meant by the term 'misleading'. That guidance is not the same in all jurisdictions (different regulators have different views on what is misleading).

    (d) The Board's current proposals would give regulators leverage to push back on entities disclosing measures as MPMs if they do not achieve faithful representation.

61. Instead, we recommend the Board clarifies that MPMs are subject to the general requirement that information included in the financial statements must provide a faithful representation.

Specify specific constraints on how MPMs could be calculated

62. In this approach, entities would only be able to disclose MPMs in the financial statements if they meet specific constraints on how they are calculated.

[5] Misleading is mentioned in paragraphs 19–24 of IAS 1, paragraph 30 of IAS 20 *Government Grants*, paragraph 2 of IAS 29 *Financial Reporting in Hyperinflationary Economies*, paragraph 10 of IAS 34 *Interim Financial Reporting*, and paragraph 90 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

63. Some regulators have suggested that only MPMs calculated in accordance with requirements in IFRS Standards should be permitted. In other words, entities would not be able to identify MPMs calculated using tailor-made accounting policies, such as accelerated revenue recognition. Some of the other adjustments that would be prohibited under this approach include proportionate consolidation of equity-method investments and adjustments to strip out the effect of changes in exchange rates (so-called constant currency measures).

64. The advantages of this approach are that:

   (a) it would be consistent with requirements in paragraphs 85A(a) of IAS 1 for presentation of additional subtotals in the statement(s) of financial performance;

   (b) it would prevent entities from disclosing potentially misleading measures not calculated in accordance with IFRS Standards; and

   (c) it would respond to concerns of some regulators that tailor-made accounting policies are misleading.

65. The disadvantages of this approach are that:

   (a) it might be unclear which measures are made up of amounts recognised and measured in accordance with IFRS Standards. For example, is a measure that excludes amortisation of some acquired intangible but includes amortisation of other intangibles, made up of amounts recognised and measured in accordance with IFRS Standards?

   (b) it might prevent entities from disclosing useful measures; for example, some users find measures that adjust for the effect of acquisition accounting on revenue recognition useful because it facilitates trend analysis. Identifying which tailor-made accounting policies are useful is likely to be difficult as it may depend upon particular facts and circumstances.

   (c) it might prevent entities from disclosing industry-defined APMs, for example operating profit measures adjusted for proportionate consolidation of equity-method investments are common in the property industry in some regions.

   (d) it may create conflicts with regulatory guidance, because:

(i) not all regulators prohibit disclosures of APMs calculated using tailor-made accounting policies; and

(ii) some regulators that prohibit disclosures of APMs calculated using tailor-made accounting policies, make exceptions for some adjustments of the type described in (b) above.

66. We think that the disadvantages of this approach outweigh its advantages. Consequently, the staff do not recommend this approach.

67. Although the staff do not recommend this approach, some regulators have expressed support for prohibiting the use of tailor-made accounting policies in MPMs. Consequently, the staff propose seeking feedback on this approach in the consultation document.

What is the expected effect of MPM proposals on non-professional investors?

68. As some regulators have expressed specific concerns about the effect of the proposals on non-professional investors, we think it would be helpful to analyse those effects separately.

69. Academic evidence shows that non-professional investors rely more on non-GAAP measures today than other investors:

(a) Frederickson and Miller[6] found that non-professional investors tended to assign a higher share price in cases where non-GAAP pro forma measures were higher than GAAP measures.

(b) Bhattacharya et al[7] found that non-professional investors use unexpected earnings in non-GAAP earnings to inform their trading behaviour and do so to a greater degree than they do with GAAP earnings.

(c) on the other hand, Christensen et al[8] found that sophisticated short sellers appear to rely on either identifying managerial opportunism in non-GAAP

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[6] The Effects of Pro Forma Earnings Disclosures on Analysts' and Nonprofessional Investors' Equity Valuation Judgments. By Frederickson and Miller *Accounting Review* 2004

[7] See, Who Trades on Pro Forma Earnings Information? By Bhattacharya, Black, Christensen, Mergenthaler *Accounting Review* 2007

[8] Optimistic Reporting and Pessimistic Investing: Do Pro Forma Earnings Disclosures Attract Short Sellers? By Christensen, Drake, and Thornock *Contemporary Accounting Research* 2014

earnings or simply identifying a naive overreaction by unsophisticated investors to take successful short positions.

70. Based on this, we think there may be different effects of the MPM proposals on non-professional investors:

(a) they may encourage greater use of non-IFRS measures by non-professional investors who may be misled by these measures;

(b) they may not have any effect on non-professional investors, because they are less likely than other investors to use the financial statements;

(c) they may help non-professional investors better understand the non-IFRS measures they are already using, because the proposals will improve the quality and transparency of those measures; or

(d) the inclusion of non-IFRS measures in the financial statements may encourage non-professional investors to make greater use of the information in the financial statements and thus potentially make better informed investment decisions.

71. Whilst any of the above effects are possible, we think the risk of the negative effect described paragraph 70(a) is low because evidence suggests such investors already place a lot of reliance on non-IFRS numbers. We think that the proposals for MPMs create an opportunity for more transparency about these numbers in communications both within and outside financial statements, thus potentially benefitting even those investors that do not focus on financial statements.

Question for the Board

Question 1

Does the Board agree with the staff recommendation to:

a) clarify that MPMs are subject to the general requirement that information included in the financial statements must provide a faithful representation;

b) make no specific statement that MPMs should not be misleading; and

c) do not place specific constraints on how MPMs should be calculated (for example prohibiting the use of tailor-made accounting policies)?

Should we make a clearer link between communications outside financial statements and MPMs?

72. The Board's proposals for MPMs do not require MPMs to be the same as APMs communicated outside financial statements.

73. In developing proposals for MPMs, the Board previously considered requiring entities to include in the financial statement the key performance measures that are communicated in the annual report (AP21A from January 2018). However, the Board rejected this approach because it could be difficult to implement.

74. We think that there is a risk that users may find it confusing or misleading if entities use different performance measures in their financial statements to those used in their wider communications with investors.

75. We have therefore considered an approach that:

    (a) provides an explicit link between communication outside the financial statements and MPMs; and

    (b) is simpler than the approach the Board previously rejected.

76. We think that an approach in which entities would only be able to identify measures as MPMs if they use those measures outside the financial statements to communicate the entity's performance to investors would avoid the risk described in paragraph 74.

77. This approach is simpler than the approach the Board considered in January 2018 because it would not require entities to identify all financial performance measures communicated in the annual report and identify them as MPMs, avoiding the need to define what is meant by the 'annual report'.

78. The advantages of this approach are:

    (a) it provides a link between the reporting of performance measures inside and outside the financial statements, avoiding the risk of entities potentially providing two sets of performance measures—MPMs in the financial statements and APMs outside financial statements.

    (b) it is consistent with the Board's definition of MPMs as a measure (or measures) of profit or comprehensive income that, in the view of management, communicates to users the financial performance of the entity (and is not specified in IFRS Standards). This is because we would expect management to include in its communications outside the financial statements any measure that it believes communicates the financial performance of the entity.

(c) it may alleviate regulator's concerns that entities may disclose misleading measures in the financial statements because it would prohibit entities from disclosing MPMs that regulators do not permit in communications outside the financial statements.

79. The approach also has disadvantages:

(a) it can be seen as subjecting measures included in the IFRS financial statements to regulatory views on what is misleading; and

(b) it may result in different MPMs being disclosed depending on the regulatory requirements in different jurisdictions.

80. The staff however recommend this approach because we think it is important MPMs are aligned with public communications outside the financial statements.

Question for the Board

Question 2
Does the Board agree with the staff recommendation to state that entities can only identify a measure as an MPM if they use the same measure in their public communications with users outside the financial statements?

Do we need to update the MPM proposals for the Board's recent tentative decisions on unusual items?

81. The Board has tentatively decided to require entities to provide a separate disclosure of information about unusual income and expenses. This disclosure requirement applies to all entities regardless of whether they provide MPMs or whether an entity's MPMs exclude unusual income and expenses.

82. However, we think it would be useful for entities to identify any income or expenses excluded from MPMs that meet the definition of unusual items. This would:

(a) enable users to identify which, if any, unusual items the entity adjusts for to arrive at MPM; and

(b) support one of the users' main uses of non-GAAP information as identified in paragraph 5(b) above, which is to obtain insight into the persistence or sustainability of an entity's financial performance.

83. We note that entities will be required to consider our proposed principles of disaggregation. Those principles require entities to disaggregate items with different characteristics. Entities may, in applying this guidance, separately identify unusual income or expenses excluded from MPMs. However, we think it would be helpful to explicitly require entities to identify adjustments for unusual items because we think users are particularly interested in this information.

Question for the Board

Question 3
Does the Board agree with the staff recommendation to require entities to identify any income or expenses that meet the definition of unusual items that are excluded from the entity's MPMs?