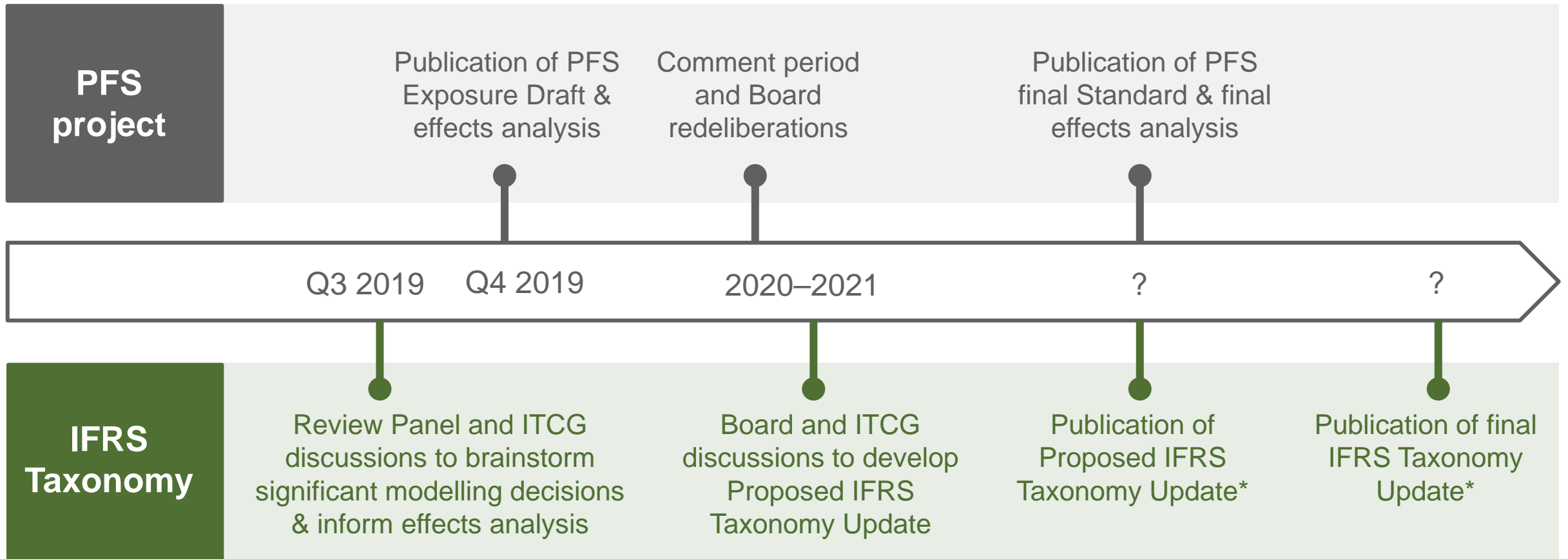


Interaction between electronic reporting and the Primary Financial Statements project

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

Background—timeline



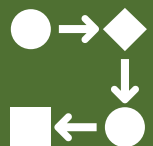
this meeting

*subject to Board approval & ITCG review

Seek your views on interactions between the Board's tentative proposals in the Primary Financial Statements (PFS) project and electronic reporting



How might the PFS proposals enhance electronic reporting?
—input into the PFS effects analysis (slides 4–13)



Significant IFRS Taxonomy modelling choices for the PFS proposals

Management performance measures
(slides 16–30)

Unusual items
(slides 31–38)

Line items appearing in multiple P&L categories
(future meeting)

See Agenda Paper 3B for an overview of the proposals in the PFS project



How might the PFS proposals enhance electronic reporting?

Input into the PFS effects analysis

Challenges for users of electronic reporting*

5



Lack of comparability

Difficult to communicate entity-specific information

Not available in a usable format

Inconsistent availability

Data errors**

The next slides analyse how the PFS proposals might address some of these challenges

*Described in more detail in [Agenda Paper 7](#) for the September 2018 IFRS Advisory Council

**We think the PFS proposals will not significantly reduce data errors.

How might the PFS proposals address challenges? (1)

6

Lack of comparability



Current situation

- **Different reporting practices** result in different companies tagging:
 - comparable data in different ways; and
 - non-comparable data in the same way.
- Users may assume information tagged using the same IFRS Taxonomy element is **comparable** across companies **when it is not**.
- **See examples on slides 10–12**

PFS proposals

- New structure for the statement(s) of financial performance and illustrative examples may reduce diversity in reporting practices, which in turn will reduce diversity in tagging.
- New defined subtotals will be comparable across companies.

How might the PFS proposals address challenges? (2)

7

Difficult to communicate entity-specific information



Current situation

- Unusual items and alternative performance measures are:
- tagged using **extensions**; or
 - **not tagged** at all—some are reported outside financial statements and therefore, are not required to be tagged by some regulators.

Such information is **difficult to extract and analyse**.

PFS proposals

- Unusual items and management performance measures (MPMs) will be included in financial statements, so are more likely to be tagged.
- IFRS Taxonomy elements may replace some extensions (see slides 15–38).

How might the PFS proposals address challenges? (3)

Not available in a usable format 

Current situation

Users need to spend **significant resources**—using XBRL calculations and manual adjustments:

- to make subtotals comparable
- to identify unusual items and ‘normalise’ data

or they use data aggregator services.

See examples on slides 10–12

PFS proposals

May reduce the cost of electronic data through:

- enhanced comparability of subtotals across companies
- required disclosure of unusual items in a single note, which makes them easier to find

How might the PFS proposals address challenges? (4)

Inconsistent availability



Current situation

- The IFRS Taxonomy has elements for commonly reported line items and subtotals such as operating profit.
- However such line items or subtotals are **not consistently available** across companies due to different reporting practices.
- See example on slide 10, company Z.

PFS proposals

Defined subtotals and operating expenses disaggregated by nature will be required, so will be available for all companies.

Current situation—subtotals

Company X	Company Y	Company Z
Revenue	Revenue	Revenue
Operating expenses	Operating expenses	Operating expenses
Net interest on net pension liability		
	Share of result of associates/ JVs	
Operating profit	Operating profit	(no operating profit presented)
Finance income/ expenses	Finance income/ expenses	Finance income/ expenses
	Net interest on net pension liability	Net interest on net pension liability
Share of result of associates/ JVs		Share of result of associates/ JVs
Tax	Tax	Tax
Profit	Profit	Profit



An investor wanting to **compare** these companies' **operating profit**:

- needs to spend time trying to **identify operating profit** for company Z (and may not succeed due to use of extensions)
- needs to spend time to understand the **definition of operating profit** by reading the notes or using XBRL calculations
- may wrongly assume operating profit is **comparable** for X and Y and be **misled**.

The Board has tentatively decided to define and require all companies to present operating profit

Current situation—line items (1)

- Companies X and Y are identical with restructuring expenses of 900, consisting of termination benefits of 700 and impairments of PPE for factory X of 200.
- Company X includes the restructuring expenses in ‘Employee benefits expense’ and ‘Impairment of PPE’, Company Y presents them as a separate line item:

Company X	
Revenue	16,500
Changes in inventories	(1,000)
Raw material and consumables used	(6,000)
Employee benefits expense:	(4,400)
Impairment of PPE:	(600)
Depreciation & amortisation expense	(1,200)
Operating profit	3,300

Company X would use the IFRS Taxonomy line items ‘Employee benefits expense’ and ‘Impairment loss [...], property, plant and equipment’ to tag the (4,400) and (600).

Company Y	
Revenue	16,500
Changes in inventories	(1,000)
Raw material and consumables used	(6,000)
Employee benefits expense	(3,700)
Impairment of PPE	(400)
Depreciation & amortisation expense	(1,200)
Adjusted operating profit	4,200
Restructuring expense	(900)
Operating profit	3,300

Company Y could use the same IFRS Taxonomy elements as Company X to tag the (3,700) and (400), **or** create extensions (see next slide)

Current situation—line items (2)

An investor wanting to compare these two companies' employee benefits expense and impairments of PPE would get the following results when **extracting the values for the IFRS Taxonomy line items**:

If company Y uses IFRS Taxonomy line items to tag (3,700) and (400):

IFRS Taxonomy line item	Value for Company X	Value for Company Y
Employee benefits expense	4,400	3,700
Impairment loss [...] property, plant and equipment	600	400

Could be misleading—electronic users could wrongly assume the data is comparable.

If company Y creates extensions to tag (3,700) and (400):

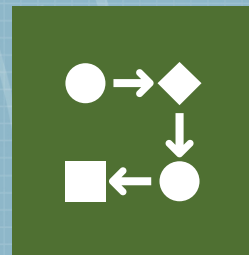
IFRS Taxonomy line item	Value for Company X	Value for Company Y
Employee benefits expense	4,400	No value reported
Impairment loss [...] property, plant and equipment	600	No value reported

Missing data—Electronic users would need to derive the amounts for company Y from XBRL calculations and/or anchoring of extensions.

Applying the PFS proposals, Company Y's reporting practice would not be allowed, because entities will be required to present expenses either by function or by nature and 'restructuring' is a functional line item.

How might the PFS proposals enhance electronic reporting?

- a. Do you agree with the analysis on slides 6–9 of how the PFS proposals might enhance electronic reporting?
- b. Have we overlooked any additional benefits of the PFS proposals for electronic reporting?
- c. Have we overlooked any disadvantages of the PFS proposals for electronic reporting?



Significant IFRS Taxonomy modelling choices for the PFS proposals

Focus at
this stage



Brainstorming significant modelling choices for:

Management
performance measures
(slides 16–30)

Unusual items
(slides 31–38)

Line items appearing in
multiple P&L categories
(future meeting)

How do modelling approaches compare in terms of data
accessibility for users and ease of tagging for preparers?

Not considered
at this stage

- Detailed modelling for all disclosures
- Existing constraints of XBRL calculations—XBRL International is currently working on enhancing the technical specifications.

Management performance measures (MPMs)

1 Create a text block to tag the entire MPM disclosure (slide 18)

2 In addition, should the IFRS Taxonomy support detailed tagging of MPM disclosures? (slides 19–24)

if so

3 Which modelling approach should be used for detailed tagging?

Tagging of value of MPM
(slides 25–30)

Tagging of reconciliation and
narrative disclosures
(not considered at this stage)

① Text block tag for entire MPM disclosure

Example—extract from the notes

Text block tag 

*The Group has included within its financial statements a management performance measure—**adjusted operating profit**.*

Adjusted operating profit is calculated as operating before:

- *any income or expenses that meet the definition of ‘unusual items’; and*
- *fair value gains or losses on financial instruments.*

Adjusted operating profit is not defined in IFRS Standards and therefore may not be comparable to similar measures used by other companies. The measure is provided to supplement IFRS measures, and not intended to be a substitute for IFRS measures.

Adjusted operating profit is used for budget planning and setting management remuneration. It is also used in discussions with investment analysts and credit rating agencies.

Adjusted operating profit can be reconciled to operating profit as follows:

	MPM reconciliation	Tax	NCI
Adjusted operating profit	4,400		
Fair value losses on financial assets	(200)	40	–
Restructuring expenses	(900)	200	(100)
Operating profit	3,300		

② Support detailed tagging of MPM disclosures?

How is the Board proposing to mitigate the risk of MPMs being misleading?

Clear identification of measures as MPMs

Contextual information in a single note

Reconciliation to closest IFRS measure

Next slides analyse how these proposals work in electronic reporting in 3 scenarios

	Regulator requires...	IFRS Taxonomy supports...
Scenario A	Text block tagging (TBT) only	Text block tagging only
Scenario B	Detailed tagging (DT) and text block tagging	Text block tagging only
Scenario C	Detailed tagging and text block tagging	Detailed tagging and text block tagging

② Comparison—how would this work in electronic reporting?

Clear identification of measures as MPMs

A. Only TBT required and supported	B. DT & TBT required, TBT supported	C. DT & TBT required and supported
<p>Electronic users will either:</p> <ul style="list-style-type: none"> review the text block and manually extract the data—clear identification as MPM 	<ul style="list-style-type: none"> Extensions are used to tag MPMs and may be anchored to an IFRS-defined measure. A user may not understand that an extension is an MPM, and through anchoring may wrongly assume that the disclosure is an IFRS-defined measure. 	<ul style="list-style-type: none"> IFRS Taxonomy sets the standard for how an MPM should be identified (see slides 27–28 for possible approaches and examples). A user will know through tagging using the IFRS Taxonomy that an extracted value is an MPM (see suggested labels on slides 27–28).
<ul style="list-style-type: none"> use AI to extract and structure numeric disclosures—no clear identification as MPM not use the MPM disclosure 		

② Comparison—how would this work in electronic reporting?

21

Contextual information in a single note

A. Only TBT required and supported

B. DT & TBT required, TBT supported

C. DT & TBT required and supported

✓ Text block of the whole MPM note is available, allowing electronic users to understand the MPM(s) in context.

✗ However, electronic users may not extract and review the text block to look at MPMs in context and may only use the numeric information in the MPM note:

using AI to extract and structure the data

tagged in detail using extensions

tagged in detail using the IFRS Taxonomy

② Comparison—how would this work in electronic reporting?

Reconciliation to closest IFRS measure

A. Only TBT required and supported

Electronic users will either:

- review the text block and spend significant resources to manually extract the data; or
- not use the reconciliation.



B. DT & TBT required, TBT supported

Different modelling approaches may be used by companies, so electronic users will either:

- need to spend significant resources to extract the data; or
- not use the reconciliation.




C. DT & TBT required and supported

- IFRS Taxonomy sets the standard as to how the reconciliation should be tagged.
- Detailed tagging of the reconciliation using the IFRS Taxonomy may make it easier for an electronic user to analyse adjustments made in calculating MPMs (see examples on next slide)



② Detailed tagging of MPM reconciliation—potential uses

Possible user needs 	Text block tagging only	Detailed tagging using the IFRS Taxonomy
<p>I want to analyse the reconciling items entity X has used in the last five years.</p>	<p>✗ Users need to extract the text block for each year and manually copy and paste the numerical data into the format of their choice for analysis.</p>	<p>✓ Users can run a data query to automatically extract the MPM, the most comparable IFRS measure and all reconciling items and view it in a format of their choice (eg a spreadsheet or database).</p>
<p>When screening potential investments, I want to filter out companies that adjust for share-based payment expenses in their MPM(s)</p>	<p>✗ Manual analysis required of the text block for each company in the sample.</p>	<p>✓ Users can run a data query on the IFRS line item for share-based payment expenses* for a sample of companies and use XBRL calculations to identify whether this element has been included in any MPM reconciliation.</p>

* Element label: 'Total expense from share-based payment transactions in which goods or services received did not qualify for recognition as assets'

Management performance measures—detailed tagging?

In our view, the IFRS Taxonomy should support **both detailed tagging and text block tagging** of MPM disclosures, because that approach best supports the Board's proposals for MPMs in electronic reporting.

Do you agree such an approach supports:

- Clear identification of MPMs (slide 20)
- Contextual information in a single note (slide 21)
- Reconciliation to the closest IFRS measure (slide 22)?

③ Detailed tagging of the value of MPMs

The Group has included within its financial statements a management performance measure—**adjusted operating profit**.

Adjusted operating profit is calculated as operating before:

- any income or expenses that meet the definition of ‘unusual items’; and
- fair value gains or losses on financial instruments.

Adjusted operating profit is not defined in IFRS Standards and therefore may not be comparable to similar measures used by other companies. The measure is provided to supplement IFRS measures, and not intended to be a substitute for IFRS measures.

Adjusted operating profit is used for budget planning and setting management remuneration. It is also used in discussions with investment analysts and credit rating agencies.

Adjusted operating profit can be reconciled to operating profit as follows:

MPM reconciliation		Tax	NCI
Adjusted operating profit	4,400		
Fair value losses on financial assets	(200)	40	–
Restructuring expenses	(900)	200	(100)
Operating profit	3,300		

Monetary tag

Detailed tagging of the reconciliation and narrative disclosures will be considered at a later stage

③ Detailed tagging of the value of MPMs—Example

- Identical companies X and Y both identify an MPM labelled ‘adjusted operating profit’, but use a **different definition**. Their MPMs have a value of respectively 4,400 and 4,200.

Extracts from the MPM notes of Company X and Y:

MPM reconciliation Company X	
Adjusted operating profit	4,400
Fair value losses on financial assets	(200)
Restructuring expense	(900)
Operating profit	3,300

MPM reconciliation Company Y	
Adjusted operating profit	4,200
Restructuring expense	(900)
Operating profit	3,300

③ Detailed tagging of the value of MPMs—Approach A

27

Approach A—Create IFRS Taxonomy ‘dummy’ line items (MPM 1, MPM 2 etc.)

Example: applying this approach to company X and Y (see slide 26):

	Company X	Company Y
Value	4,400	4,200
IFRS Taxonomy standard label (and id) for line item	MPM1 (ifrs-full_MPM1)	MPM1 (ifrs-full_MPM1)
Entity-specific label	Adjusted operating profit	Adjusted operating profit

Advantages

- Clear identification of measures as MPMs through IFRS Taxonomy standard labels and names.
- Electronic users can use these labels or names to run a query to extract an entity’s MPMs.

Disadvantages

- Change to IFRS Taxonomy architecture—no dummy line items used so far so stakeholders may need to learn and adjust.
- How do we decide how many dummy MPMs to include within the IFRS Taxonomy?
- Entities could use inconsistent tags (eg MPM 1, MPM 2) for the same MPM over time.

③ Detailed tagging of the value of MPMs—Approach B

28

Approach B—Create IFRS Taxonomy axis labelled ‘MPM measures’ and use of extension members

Example: applying this to company X and Y (see slide 26):

	Company X	Company Y
Value	4,400	4,200
IFRS Taxonomy standard label (and id) for line item	MPM (ifrs-full_MPM)	MPM (ifrs-full_MPM)
Extension members of the IFRS Taxonomy axis ‘MPM measures’	EXT: Adjusted operating profit	EXT: Adjusted operating profit

Advantages

- Clear identification of extension members as MPMs through use of the MPM axis
- No need to predict how many MPMs an entity may have

Disadvantages

- Potential confusion for users (and software tools) as axes are normally used for disaggregation of information? In this case the total of all members does not provide any meaningful information.

We propose **not to create elements (line items or members) for specific MPMs:**

- included in the Illustrative Examples accompanying the new standard; or
- commonly used in practice.

For example, we would not create a specific element for ‘recurring operating profit’ or ‘adjusted EBITDA’—all MPMs would be tagged using one of the approaches on slides 27–28.

Rationale—Creating such elements might:

- result in a false sense of comparability; MPMs with the same label can be calculated differently (see example on slide 26).
- not be necessary—if users want to identify ‘similar’ MPMs used by different entities, they could do so by extracting MPMs that have the same closest IFRS subtotal, instead of relying on the labels.



Question 3 for ITCG members

Detailed tagging of the value of MPMs

- a. If the IFRS Taxonomy supports detailed tagging of the value of MPMs, which of the approaches on slides 27–28:
 - makes it easier for users to access the data?
 - most clearly identifies measures as MPMs?
 - makes it easier for preparers to tag the data?
- b. Have we overlooked any advantages or disadvantages of, or alternative modelling approaches for tagging the value of MPMs?

Unusual items

Disclosing unusual items

The Board has tentatively decided to require entities to disclose unusual items in a note. In that note, **unusual items should be attributed to line items** in the statement(s) of financial performance:






Line items in P&L that include unusual items	Unusual Items			Total unusual items incl. in P&L line item
	Restructuring of subsidiary A	Litigation costs arising from Case X	Bargain purchase of entity Y	
Employee benefits expense	(300)			(300)
Impairment of non-financial assets	(150)			(150)
Professional fees	(70)	(50)		(120)
Other income			450	450
Expenses from financing activities	(80)			(80)
Profit before tax	(600)	(50)	450	(200)

Approach A

Existing IFRS Taxonomy line items or extensions for P&L line items

New 'Type of unusual item' axis

New 'Usual and unusual' axis






Item	Value	Line item	Member	Member
	70	[IFRS] Professional fees expense	[IFRS] Expense of restructuring activities (ext. label 'Restructuring of subsidiary A')	Unusual
	50	[IFRS] Professional fees expense	[EXT] Litigation costs arising from Case X	Unusual
	-600	[IFRS] Profit (loss) before tax	[IFRS] Expense of restructuring activities (ext. label 'Restructuring of subsidiary A')	Unusual
	120	[IFRS] Professional fees expense	Default = total	Unusual
	-200	[IFRS] Profit (loss) before tax	Default = total	Unusual

Approach B

Existing IFRS Taxonomy line items or extensions for types of unusual items

New 'P&L location' axis**

New 'Usual and unusual' axis

Item	Value	Line item	Member	Member
	70	[IFRS] Expense of restructuring activities*	[IFRS] Professional fees expense	Unusual
	50	[EXT] Litigation costs arising from Case X	[IFRS] Professional fees expense	Unusual
	600	[IFRS] Expense of restructuring activities*	[IFRS] Profit (loss) before tax	Unusual
	-120	[IFRS] Total unusual income (expenses)	[IFRS] Professional fees expense	Unusual
	-200	[IFRS] Total unusual income (expenses)	[IFRS] Profit (loss) before tax	Unusual

*We are assuming that the company also has 'usual' restructuring expenses, which is why an extension label cannot be used in this approach for the IFRS element 'Expense of restructuring activities'.

**Default member: Profit (loss) before tax






Approach C

35

New generic line item


New 'Type of unusual item' axis

New 'P&L location' axis

Item	Value	Line item	Member	Member
	-70	[IFRS] Unusual income (expenses)	[IFRS] Expense of restructuring activities (ext. label 'Restructuring of subsidiary A')	[IFRS] Professional fees expense
	-50	[IFRS] Unusual income (expenses)	[EXT] Litigation costs arising from Case X	[IFRS] Professional fees expense
	-600	[IFRS] Unusual income (expenses)	[IFRS] Expense of restructuring activities (ext. label 'Restructuring of subsidiary A')	[IFRS] Profit (loss) before tax
	-120	[IFRS] Unusual income (expenses)	Default = total	[IFRS] Professional fees expense
	-200	[IFRS] Unusual income (expenses)	Default = total	[IFRS] Profit (loss) before tax

Comparing approaches—ease of analysis

Query to get information (green = more intuitive)

Possible user needs 	Approach A	Approach B	Approach C
I want to know how much of each P&L line item consists of unusual items.	Query all line items with member 'unusual' on 'Usual and unusual' axis*	Query line item 'Total unusual income (expenses)', disaggregated by members of the 'P&L location' axis	Query line item 'Unusual income (expenses)', disaggregated by members of the 'P&L location' axis*
I want a list of the company's unusual items by type	Query line item 'Profit (loss) before tax', disaggregated by members of the 'Type of unusual item' axis	Query all line items with member 'unusual' on 'Usual and unusual' axis*	Query line item 'Unusual income (expenses)', disaggregated by members of the 'Type of unusual item' axis*
I want to know the total of unusual expenses.	Query line item 'Profit (loss) before tax' with member 'unusual'*	Query line item 'Total unusual income (expenses)'	Query line item 'Unusual income (expenses)'

* And no/default member used on other axes.

Comparing approaches—other factors

	Approach A	Approach B	Approach C
When extensions are used for entity-specific types of unusual items, can users understand the items disclosed are unusual items?	Yes—indicated by using an extension member belonging to the ‘unusual items’ axis	Yes—indicated by using an extension line item with the member ‘unusual’.	Yes—indicated by using an extension member belonging to the ‘unusual items’ axis
Can the specific nature of an unusual item be communicated?	Extension labels can be used for IFRS Taxonomy members to indicate the specific nature of an unusual item	Extension labels cannot always be used for IFRS Taxonomy line items to indicate the specific nature of an unusual item*	Extension labels can be used for IFRS Taxonomy members to indicate the specific nature of an unusual item
Appropriate use of axes ?	Yes—‘Type of unusual item’ and ‘Usual and unusual’ axis represent a disaggregation	P&L location axis does not represent a disaggregation?	P&L location axis does not represent a disaggregation?

*See example of ‘Expense of restructuring activities’ on slide 34.

Unusual items

- a. Which of the approaches on slides 33–35:
 - is easiest for users to access and analyse the data?
 - is easiest for preparers to tag the data?
- b. Are there any advantages, disadvantages or alternative approaches we have overlooked?

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