

Primary Financial Statements *Project Update*

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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 IFRS Foundation.

Project timeline

Project history

Upcoming consultation

After consultation



2015 Agenda
Consultation identified
project as a priority



Publish Exposure
Draft at end of
2019



Board
redeliberations
from H2 2020
onwards



Board discussions
to develop
Exposure Draft
(H2 2016–2019)



comment period
until 30 June
2020 (expected)



Issue final
Standard

The Exposure Draft structure – subject to change

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New IFRS Standard



Proposed **new requirements** on the structure and content of financial statements



Related requirements brought forward from **IAS 1** with limited wording changes

Amendments to other Standards

- IAS 7—statement of cash flows
- IAS 33—EPS
- IAS 34—interim reporting
- IFRS 12—associates and JVs

Other requirements of **IAS 1**—moved to IAS 8 and IFRS 7

Agenda Paper 21 for September 2019 Board meeting explains the approach to structuring the proposals



Withdraw IAS 1



Next steps

- The team mostly focusing on drafting the ED and accompanying materials until end of 2019
- Seek GPF input on questions in the ED during 2020 meetings
- Include GPF in any fieldwork – the Board is yet to decide on approach



Recap of key proposals and expected benefits

Key proposals in the ED & expected benefits

Key proposals	Key benefits expected	Slide
1 Introduce defined subtotals and categories in the statement of profit or loss	Provide additional relevant information and a structure that is more comparable between entities	7–12
2 Introduce principles and guidance for aggregation and disaggregation	Provide additional relevant information Avoid obscuring material information	13
3 Amend requirements for analysis of operating expenses	Provide additional relevant information	14
4 Introduce disclosures on unusual items	Provide additional relevant information, in a single location	15
5 Introduce disclosures on Management Performance Measures (MPMs)	Provide transparency & discipline in use of such measures, in a single location	16–17
6 Introduce targeted improvements to the statement of cash flows	Improve comparability between entities	18

1 Operating profit—current practice

Many users use operating profit in their analysis; for assessing margins and for forecasting future cash flows

Many companies present operating profit (and variants) as a subtotal, however it is **calculated inconsistently** across companies.

Company X	Company Y
Revenue	Revenue
Net interest on defined benefit liabilities	Share of profit of associates and JVs
Income from investments in financial assets	
Operating profit	Operating profit
Share of profit of associates and JVs	Income from investments in financial assets
	Net interest on defined benefit liabilities
Profit	Profit

1 Operating profit—proposed approach

Operating profit = profit from continuing operations before tax and before...

Investing

(defined by the Board)


Financing

(defined by the Board)

Share of profit of
integral associates
and joint ventures

- Though defined as a **residual**, the Board expects operating profit to capture income and expense from the entity's **main business activities**.
- Whether an item is '**unusual**' does **not** affect whether it is included in operating profit.
- **Associates and JVs are below operating profit**, so financing or tax income and expenses from such entities are not included in operating profit and do not distort margin calculations.

1 Investing & financing

	Investing	Financing
Objective 	Communicate returns from investments that are generated individually and largely independently of other resources held by an entity	Communicate income and expenses from assets and liabilities related to an entity's financing
Includes items such as:	<ul style="list-style-type: none">• income and expenses from financial assets, other than cash and cash equivalents• the share of profit or loss of non-integral associates and joint ventures• income and expenses on investment property	<ul style="list-style-type: none">• income and expenses from cash and cash equivalents• income and expenses on liabilities arising from financing activities• unwinding of discount on pensions and provisions

1 Introducing required and defined subtotals*

Revenue	16,500
Changes in inventories of finished goods and work in progress	(1,000)
Raw material and consumables used	(6,000)
Employee benefits expense	(4,000)
Amortisation expense	(800)
Depreciation expense	(1,200)
Impairment of property, plant and equipment	(500)
Operating profit	3,000
Share of profit of integral JVs and associates	500
Operating profit and share of profit or loss of integral associates and JVs	3,500
Changes in the fair value of financial assets	250
Dividend income	50
Share of profit of non-integral JVs and associates	100
Profit before financing and income tax	3,900
Interest income from cash and cash equivalents	100
Expenses from financing activities	(1000)
Unwinding of discount on pension liabilities and provisions	(100)
Profit before tax	2,900

Operating

Integral associates and JVs

Investing

Financing

*Proposal for general corporates

1 Definitions take into account different business activities

For example for a bank whose main business activities include investing, providing financing to customers and other services:

Operating profit includes:

- Interest expense
- Income and expenses from investments made in the course of the entity's main business activity

No profit before financing and tax subtotal is presented

Interest income*	X
Interest expense	(X)
Net interest income	X
Fee and commission income	X
Fee and commission expense	(X)
Net fee and commission income	X
Net trading income	X
Net investment income*	X
Credit impairment losses	(X)
Employee benefit expenses	(X)
Operating profit	X
Share of profit of integral associates and JVs	X
Operating profit and share of profit of integral associates and JVs	X
Share of profit of non-integral associates and joint ventures	X
Income from investments outside main business activities	X
Unwinding of discount on pension liabilities	(X)
Profit before tax	X

*Interest revenue calculated using the effective interest method would be presented separately.

Presentation of associates and joint ventures

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Preparer A

My associates and JVs are a part of my main business, so I want to include my share of their results in my key performance measures.

The share of associates' and joint ventures' profit is after financing and after tax so I want to analyse them separately.



User B

Proposals

Separately present 'integral' and 'non-integral' associates and joint ventures in statements of financial performance and cash flows.

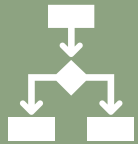
Use definition of income/expenses from investments to classify as 'integral' or 'non-integral': generate returns largely independently of other resources.

Definition supplemented with indicators for determining whether a joint venture or associate is 'integral' or 'non-integral'.

2 Aggregation & disaggregation

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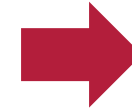
Guidance on process



identify assets, liabilities, equity, income and expenses that arise from individual transactions or other events



classify into groups based on shared characteristics, resulting in line items in the primary financial statements that share at least one characteristic



separate items based on further characteristics, resulting in the separate disclosure of material items in the notes

Guidance on aggregations of dissimilar items

- using a non-descriptive label such as ‘other’ would not faithfully represent those items without additional information;
- consider whether such items can be disaggregated;
- consider whether such items may be described in a way that faithfully represents the dissimilar items; or
- provide information in the notes about the composition of the aggregation.

3 Analysis of operating expenses

Statement of profit or loss

Present analysis by nature or by function, whichever provides the most useful information

- **Not a free choice**—the Board proposes to provide a set of factors for entities to consider when making this assessment
- Would **remove option** to present analysis of expenses in the **notes only**

Notes

Disclose analysis by nature, if statement of profit or loss presents analysis by function

- **Analysis of total operating expenses**—no requirement to analyse each functional line item by nature

4 Unusual items

Definition



Unusual income and expenses are those with **limited predictive value**. Income and expenses have limited predictive value when it is **reasonable to expect** that income or expenses that are **similar in type and amount** will **not arise** for several future annual reporting periods.

Income and expenses from the **recurring remeasurement** of items measured at a current value would **not** normally be classified as **unusual**.

Disclosures

Amount & narrative description

Disaggregated by:

- line items presented in statement of profit or loss; and
- line items disclosed in analysis of operating expenses by nature, if the entity analyses expenses by function in the statement of profit or loss

5 Management performance measures (MPMs)

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Disclosure in the notes of subtotals of income and expenses that:

Are used in public communications with users of financial statements, **outside financial statements**

Complement totals or subtotals included in IFRS Standards

Communicate **management's view** of an aspect of an entity's financial performance

Accompanied by disclosures in a **single note to enhance transparency**, including a **reconciliation** to a measure included in IFRS Standards —see next slide

5 MPM reconciliation

The MPM is disclosed in a **separate reconciliation** in the **notes**:

Adjusted operating profit (MPM)	4,400	Tax	NCI
Restructuring expenses for the closure of Factory A	(1,000)	200	50
Impairment of asset B	(400)	80	-
Operating profit (IFRS-specified)	3,000		



Most directly comparable subtotal/total specified by IFRS Standards—can be:

- any of the subtotals required by para. 81A of IAS 1;
- any of the three subtotals proposed in this project;
- profit before tax, profit from continuing operations or measures similar to gross profit; or
- operating profit before depreciation and amortisation.



Tax effect is based on a **reasonable pro rata allocation** of the current and deferred tax of the entity in the tax jurisdiction concerned; or a more appropriate allocation.

6 Statement of cash flows

Proposals

Single starting point for the indirect reconciliation: **Operating profit**

Removal of classification options for interest and dividends



Cash flow item	IAS 7 classification	Proposal for non-financial entities	Proposal for financial entities
Interest paid	Operating or financing	Financing	Operating or financing*
Dividends paid	Operating or financing	Financing	Financing
Interest received	Operating or investing	Investing	Operating, investing or financing*
Dividends received	Operating or investing	Investing	Operating or investing* (investing for equity-accounted investments)

* Depends on classification of related income/expenses in P&L

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