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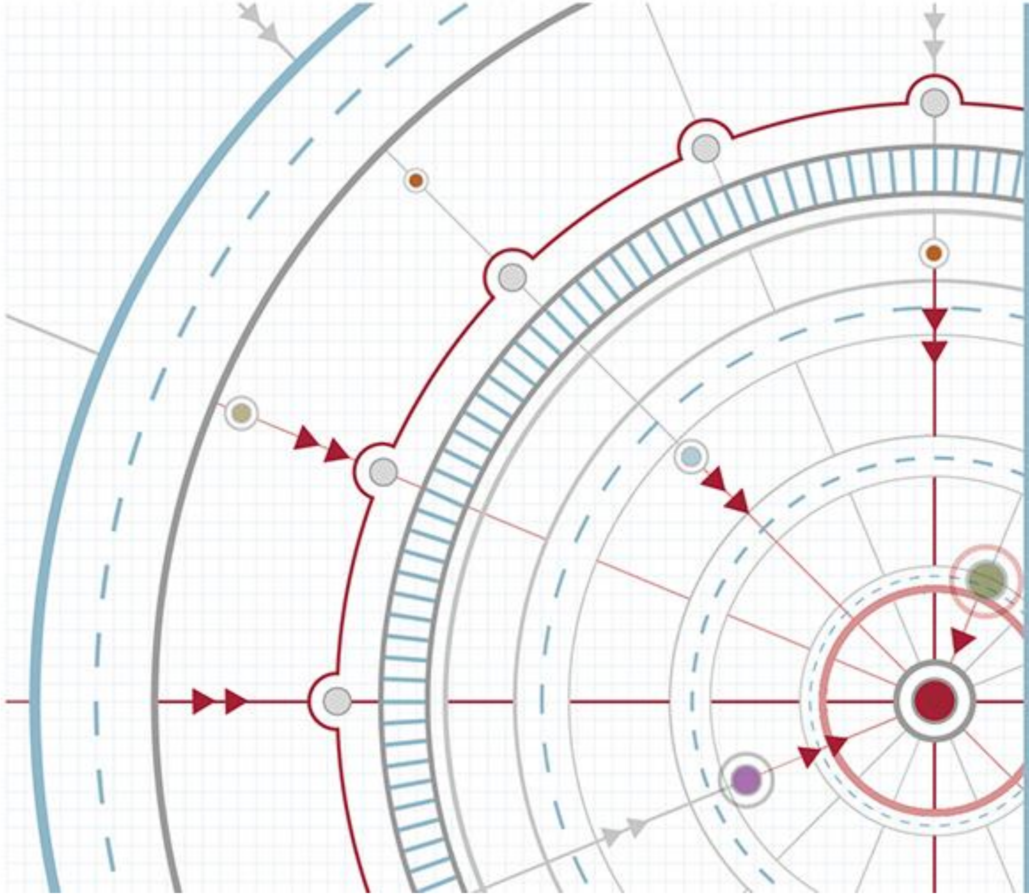

# Primary financial statements: statement(s) of financial performance

## Review of common reporting practice

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# Overview



| 1. | Profit or loss | Type of change proposed | Slides |
|---|---|---|---|
| 1A. | Employee benefits expense & share-based payment expense | Change presentation and calculation<br>Add implementation note | 3–8 |
| 1B. | Share-based payment expense | Change labels<br>Add new common practice and calculation | 9–16 |
| 1C. | Unwinding of a discount | Change labels | 17–23 |

| 2. | Other Comprehensive Income | Type of change proposed | Slide |
|---|---|---|---|
| 2A. | Currency translation gains or losses | Add new line items with disclosure reference<br>Change labels | 24–29 |
| 2B. | OCI before and after reclassification adjustments | Change labels<br>Add implementation note | 30–35 |

The Appendix to Agenda Paper 1 includes more straightforward changes related to the statement(s) of financial performance.

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# Employee benefits expense & share-based payment expense

# Background



- IAS 19 *Employee Benefits* defines ‘employee benefits’ as:

> ‘all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.’

- Share-based payments meet the defition of ‘employee benefits’.
- The documentation label of the IFRS Taxonomy element ‘employee benefits expense’ uses the IAS 19 definition. Therefore, the element is intended to tag amounts including share-based payment expenses.

# What is the issue?



- Most companies use the ‘employee benefits expense’ line item in the correct way, for example:

**(a) Employee benefit costs**

| | 2019 £m |
|---|---|
| Wages and salaries | 2,651 |
| Social security costs | 223 |
| Other pension and retirement benefit costs (note 11) | 227 |
| Share-based payments - equity and cash-settled (note 24) | 120 |
| | 3,221 |

Employee benefits expense

- However, a few companies use it to tag employee benefits expenses excluding share-based payment expenses.
- The IFRS Taxonomy presentation and calculation relationships may contribute to this issue, because share-based payment expenses are not explicitly specified as a component of employee benefits expenses.

# Proposals



Add the existing line item for ‘Expense from share-based payment transactions with employees’ to the presentation and calculation relationships of ‘Employee benefits expense’:

| |
|---|
| Classes of employee benefits expense [abstract] |
| Short-term employee benefits expense [abstract] |
| Wages and salaries |
| Social security contributions |
| Other short-term employee benefits |
| Total short-term employee benefits expense |
| Post-employment benefit expense, defined contribution plans |
| Post-employment benefit expense, defined benefit plans |
| Termination benefits expense |
| Other long-term employee benefits |
| Expense from share-based payment transactions with employees |
| Other employee expense |
| Total employee benefits expense |

In our view, this change clarifies, but does not alter the meaning of the ‘Employee benefits expense’ line item. No change is needed to the documentation label.

# Proposals



- We propose adding the following implementation note to ‘employee benefits expense’:

> Use this element to tag employee benefits expense including share-based payment expense (or when share-based payment expense is zero). Do not use this element to tag employee benefits expense excluding share-based payment expense.

# Question 1 for the ITCG



Do you agree with the proposal to:

- amend the presentation and calculation of the ‘Employee benefits expense’ element to include share-based payment expenses; and
- add an implementation note to clarify when the element should be used?

# Share-based payment expense

# Background—Disclosure requirement



IFRS 2 *Share-based Payment* requires the following disclosures:

50 **An entity shall disclose information that enables users of the financial statements to understand the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position.**

51 To give effect to the principle in paragraph 50, the entity shall disclose at least the following:

(a) the total expense recognised for the period arising from share-based payment transactions in which the goods or services received did not qualify for recognition as assets and hence were recognised immediately as an expense, including separate disclosure of that portion of the total expense that arises from transactions accounted for as equity-settled share-based payment transactions;

This paragraph requires the disclosure of total share-based payment expense.

By definition, no expenses arise when the goods or services qualify for recognition as assets.

# Background—IFRS Taxonomy modelling



- The IFRS Taxonomy contains an element reflecting the disclosure requirement in paragraph 51(a) of IFRS 2:

> Total expense from share-based payment transactions in which goods or services received did not qualify for recognition as assets

- The IFRS Taxonomy also contains a Common Practice element to tag the portion of share-based payment expenses that relates to transactions with employees:

> Expense from share-based payment transactions with employees

(IFRS 2 also covers share-based payment transactions with parties other than employees)

# What is the issue?



- We have observed diversity in how companies tag total share-based payment expenses:
  - Most companies use the common practice element for expenses from share-based payment transactions with employees.
  - Some companies use the element for the required disclosure of total share-based payment expenses.
  - Some companies create extensions.
- Such diversity makes it difficult for users to use the tagged data.
- We think the IFRS Taxonomy modelling may contribute to this diversity:
  - The label of the element for total share-based payments follows the wording of the Standard but is unnecessarily long.
  - This may confuse some preparers and lead them to conclude they should not use the element to tag total share-based payment expenses.

# Examples of diversity in tagging



| | |
|---|---|
| Revenue | |
| Metal sales | $459,016,000 |
| Cost of sales | |
| Production costs | $267,980,000 |
| Inventory write-down | $1,465,000 |
| Depreciation and amortization | $105,732,000 |
| **Cost of sales** | **$375,177,000** |
| **Earnings from mine operations** | **$83,839,000** |
| Exploration and evaluation expenses | $33,842,000 |
| Mine standby costs | $16,510,000 |
| Other operating items | - |
| General and administrative expenses | $46,806,000 |
| Acquisition costs | - |
| Defined benefit pension plan expense | $3,555,000 |
| Share based payments | $6,989,000 |
| Impairment of property, plant, and equipment | $447,808,000 |
| Other write-down of assets | $1,528,000 |
| Foreign exchange loss (gain) | $3,574,000 |
| **Loss from operations** | **($476,773,000)** |

Expense from share-based payment transactions with employees

| | |
|---|---|
| OPERATING REVENUES | $683,100,000 |
| COST OF SALES | |
| Mining and processing | $339,000,000 |
| Impairment of El Chanate inventory (note 7) | - |
| Royalties (note 19) | $17,400,000 |
| Amortization | $165,000,000 |
| **Cost of sales** | **$521,400,000** |
| EXPENSES | |
| Exploration | $6,700,000 |
| Corporate and administrative | $19,800,000 |
| Share-based compensation (note 12) | $9,200,000 |
| **Total expenses** | **$557,100,000** |

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

# Proposal



- Simplify the standard and total labels, without amending the meaning of the element (the documentation label would retain the more detailed description):

| | |
|---|---|
| Total expense from share-based payment transactions ~~in which goods or services received did not qualify for recognition as assets~~ | IFRS 2.51(a) Disclosure |

A similar change would be made to the labels of the elements for expenses from cash-settled and equity-settled share-based payment transactions.

- Add a new common practice element (using the completeness criterion) and define the relationship:

| | | |
|---|---|---|
| | Expense from share-based payment transactions with employees | IAS 1.112 c Common practice |
| + | Expense from share-based payment transactions with parties other than employees (new element) | IAS 1.112 c Common practice |
| = | Total expense from share-based payment transactions ~~in which goods or services received did not qualify for recognition as assets~~ | IFRS 2.51(a) Disclosure |

# Advantages and disadvantages of proposal



| Advantages | Disadvantages |
|---|---|
| • Clarifies the meaning of the elements for preparers and data users.<br>• This, in turn, should make it easier for preparers to find the correct element and avoid the creation of unnecessary extensions. | • The standard label would not exactly match the wording in the Standard. However, the full wording would be retained in the documentation label.<br>• The proposal does not resolve the issue that when share-based payment transactions with non-employees are zero (which could be common), preparers have two elements to choose from. This is likely to result in diversity in practice. Data users would need to look at two elements.* |

* We are not (yet) recommending double tagging to address this issue because there is no requirement in IFRS Standards to disclose share-based payment expense for employees. See discussion on slide 34.

# Question 2 for the ITCG



Do you agree with the proposal to:

- simplify the labels; and
- clarify the relationships between the elements, including by adding a new common practice element for ‘Expense from share-based payment transactions with parties other than employees’?

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# Unwinding of a discount

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# Background



IFRS Standards require provisions to be discounted.
As time passes the discount 'unwinds', increasing the provision with a corresponding expense recognised in profit or loss.

- Unwinding of a discount arises on provisions in the scope of IAS 37 (for example decommissioning or onerous contract provisions) applying paragraph 60 of IAS 37.
- The net interest on a net defined benefit liability could also be considered 'unwinding of a discount on a provision' (see paragraphs 123–126 of IAS 19). A net defined benefit liability is a provision, though it is not in the scope of IAS 37.
- Companies use different terms to describe such expenses:
  unwinding of a discount, accretion expense, time value of money effect, expense due to passage of time, imputed interest or interest expense.

# Background—IFRS Taxonomy modelling



The IFRS Taxonomy contains three elements for unwinding:

| Element standard label | Should be used for tagging: | Balance attribute | Reference |
|---|---|---|---|
| Increase through adjustments arising from passage of time, other provisions | The increase in provisions in a reconciliation of the carrying amount of provisions in the notes | Credit | Disclosure (IAS 37.84e) |
| Adjustments for increase in other provisions arising from passage of time | Adjustments in a statement of cash flows using the indirect method | Debit | Common Practice |
| Expense due to unwinding of discount on provisions | Expenses in the statement of profit or loss | Debit | Common Practice |

Throughout the IFRS Taxonomy, the term:

- ‘provisions’ is defined as ‘provisions including provisions for employee benefits’.
- ‘other provisions’ is defined as ‘provisions other than provisions for employee benefits’.

The standard label of the P&L element uses the term ‘provisions’ but the documentation label refers to ‘other provisions’.

# What is the issue?



- The labels of the P&L element do not make it clear whether it should be used for amounts relating to provisions including the net interest on net defined benefit liabilities or only amounts relating to ‘other provisions’.
- We analysed half the companies that use the P&L element and found they all used it to tag a reported amount excluding the net interest on net defined benefit liabilities (or it was zero). For example:

| | Notes | $ million |
|---|---|---|
| Retirement benefit net interest expense | 18 | (2) |
| Unwinding of discount | | (8) |
| Other | | (8) |
| **Other finance costs** | | (18) |

Expense due to unwinding of discount on provisions

- The standard label of the P&L element (‘unwinding of discount’) is different from the labels of the cash flow and reconciliation elements (‘passage of time’), making the relationship between the elements unclear.
- A few companies use the P&L element to tag the reconciliation in the notes.

# Possible approaches



**Approach A**—amend the labels of the P&L element to clarify that it:

- does not include the unwinding of the discount on provisions for employee benefits; and
- is the P&L equivalent of the reconciliation and cash flow elements, by aligning the labels using wording from IAS 37.

| | Current labels | New labels applying Approach A |
|---|---|---|
| **Standard label** | Expense due to unwinding of discount on provisions | Expense <u>arising from passage of time, other provisions</u> |
| **Documentation label** | The amount of expense recognised due to the unwinding of the discount on provisions, resulting from the effect of the passage of time. [Refer: Other provisions] | The amount of expense recognised due to the unwinding of the discount on provisions <u>other than provisions from employee benefits</u>, resulting from the effect of the passage of time. [Refer: Other provisions] |

**Approach B**—deprecate the existing P&L element and create a new element with the new labels proposed in Approach A.

# Comparison of possible approaches and proposal



| | Advantages | Disadvantages |
| --- | --- | --- |
| Approach A—Amend labels | • Would align the meaning of the element with how most companies use it in practice.<br>• No retagging required for most companies. | • Best practice when changing the meaning of an element is to create a new element rather than re-use the old element. |
| Approach B—Deprecate element and create new element | • Best practice when changing the meaning of an element is to create a new element rather than re-use the old element. | • Retagging required for most companies. |

**Proposal—Approach A**

# Question 3 for the ITCG



- Do you agree with the proposed approach (Approach A) to amend element labels and retain the existing element?
- In the future we may analyse cases of equivalent P&L, balance sheet reconciliation and cash flow elements throughout the IFRS Taxonomy and consider how to best express the relationships between them. Are you aware of any such elements in the IFRS Taxonomy that may cause confusion?

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# Currency translation gains or losses

# Background



- Paragraph 82A(a) of IAS 1 requires entities to disaggregate OCI by nature and grouped into two categories:

| Items of OCI that will not be reclassified to profit or loss | Items of OCI that will be reclassified to profit or loss when specific conditions are met |
| --- | --- |

- Exchange differences arising from translation to a different presentation currency are included in OCI (IAS 21.39(c)).
- Usually exchange differences arise on translation of a foreign operation. Such differences are reclassified to profit or loss on disposal of the foreign operation.
- However, exchange differences can also arise on translation to a different presentation currency of the results and financial position of a parent company or a stand-alone entity. Such differences are never reclassified to profit or loss.

# What is the issue?



- The IFRS Taxonomy does not include elements to tag exchange differences on translation that are not reclassified to profit or loss.
- The IFRS Taxonomy only includes elements for exchange differences on translation in the 'will be reclassified' category:

| | |
|---|---|
| Components of other comprehensive income that will be reclassified to profit or loss, net of tax [abstract] | |
| Exchange differences on translation [abstract] | |
| Gains (losses) on exchange differences on translation, net of tax | X duration, credit |
| Reclassification adjustments on exchange differences on translation, net of tax | (X) duration, debit |
| Other comprehensive income, net of tax, exchange differences on translation | X duration, credit |

- Therefore, entities that present exchange differences on translation in the 'will not be reclassified' category currently need to create extensions.

# Observed reporting practice



- We found a few entities presenting exchange differences on translation, other than translation of foreign operations as ‘not reclassified to profit or loss’:

| | | |
|---|---|---|
| Actuarial gains and losses | (Note 10) | (192) |
| Change in fair value of investments in equity instruments | (Note 15) | 142 |
| Tax effect | | 53 |
| Currency translation adjustment generated by the parent company | (Note 9) | (1,533) |
| **ITEMS NOT POTENTIALLY RECLASSIFIABLE TO PROFIT AND LOSS** | | **(1,530)** |

**C) Foreign currency translation**

The presentation currency of the Group's Consolidated Financial Statements is the US dollar. However the functional currency of the parent company is the euro. The resulting currency translation adjustments are presented on the line “currency translation adjustment generated by the parent company” of the consolidated statement of comprehensive income, within “items not potentially reclassifiable to profit and loss”. In the balance sheet, they are recorded in “currency translation adjustment”.

- The counts in the sample did not meet the threshold for adding common practice elements. However, despite the low count, we are able to add a new element to the IFRS Taxonomy with a ‘Disclosure’ reference because the reporting practice reflects the presentation requirement in paragraph 82A(a) of IAS 1.

# Proposal



| Before | After |
| --- | --- |
| Components of other comprehensive income that will be reclassified to profit or loss | Components of other comprehensive income that will be reclassified to profit or loss |
| Gains (losses) on exchange differences on translation | Gains (losses) on exchange differences on translation of foreign operations |
| Reclassification adjustments on exchange differences on translation, net of tax | Reclassification adjustments on exchange differences on translation of foreign operations, net of tax |
| Other comprehensive income, net of tax, exchange differences on translation | Other comprehensive income, net of tax, exchange differences on translation of foreign operations |

| |
| --- |
| Components of other comprehensive income that will not be reclassified to profit or loss |
| Other comprehensive income, net of tax, exchange differences on translation, other than translation of foreign operations (new element) |

- The suggested label changes would clarify but not alter the meaning of the existing elements. The proposed changes would align the wording more closely to the Standard (paragraph 7 of IAS 1).
- We would need to make similar changes for the pre-tax and tax elements.

# Question 4 for the ITCG



Do you agree with the proposal to:

- add new line items for translation gains or losses other than translation of foreign operations; and
- change the labels of existing line items?

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# OCI before and after reclassification adjustments

# Background



- IAS 1.92 requires entities to disclose reclassification adjustments to profit or loss for each item of other comprehensive income.
- In the statement of financial performance, IAS 1.94 requires entities to present:
  - OCI items before reclassification adjustments (gross) separately from any reclassification adjustments; or
  - OCI items after reclassification adjustments (net).
- This presentation option is modelled in the IFRS Taxonomy:

| |
|---|
| Exchange differences on translation [abstract] |
| Gains (losses) on exchange differences on translation, before tax |
| Reclassification adjustments on exchange differences on translation, before tax |
| Other comprehensive income, before tax, exchange differences on translation |

Before reclassification adjustments

After reclassification adjustments

# What is the issue?



- Some companies use the ‘before reclassification’ elements to tag ‘after reclassification’ amounts and vice versa.
- There is mixed tagging practice when reclassification adjustments are zero, that is, OCI before reclassification adjustments = OCI after reclassification adjustments.
- The calculation relationships and presentation linkbase clearly identify the ‘before’ and ‘after’ elements. However, the standard labels and documentation labels do not:

| Standard label | Documentation label |
|---|---|
| Gains (losses) on exchange differences on translation, net of tax | The gains (losses) recognised in other comprehensive income on exchange differences on the translation of financial statements of foreign operations, net of tax. [Refer: Other comprehensive income] |
| Other comprehensive income, net of tax, exchange differences on translation | The amount of other comprehensive income, net of tax, related to exchange differences when financial statements of foreign operations are translated. [Refer: Other comprehensive income] |

# Proposals



- Amend the documentation labels as follows:

| Standard label | Documentation label |
|---|---|
| Gains (losses) on exchange differences on translation, net of tax | The gains (losses) recognised in other comprehensive income on exchange differences on the translation of financial statements of foreign operations, net of tax, <u>before reclassification adjustments</u>. [Refer: Other comprehensive income] |
| Other comprehensive income, net of tax, exchange differences on translation | The amount of other comprehensive income, net of tax, <u>after reclassification adjustments,</u> related to exchange differences when financial statements of foreign operations are translated. [Refer: Other comprehensive income] |

- Maintain the standard labels, because amending them would make them lengthy and difficult to understand.

# Proposals



- Add implementation notes specifying that when reclassification adjustments are zero and an entity reports a single amount (which is both before and after reclassification adjustments), it should double tag the amount using both the ‘before’ and ‘after’ elements.
- We think double tagging should be required because IFRS Standards require companies to disclose both amounts. This proposal is similar to the proposal described in AP1A for basic and diluted EPS.
- We propose to bring to a future ITCG meeting:
  - a proposed general policy for when to recommend double tagging; and
  - an analysis of other IFRS Taxonomy elements for which an implementation note recommending double tagging may be helpful. As part of this exercise we may revisit whether it is appropriate to recommend double tagging to address the share-based payment issue described on slide 15.*

*We are not (yet) recommending double tagging in that case because there is no requirement in IFRS Standards to disclose share-based payment expense for employees.

# Question 5 for the ITCG



- Do you agree with the proposal to:
  - make the changes to the IFRS Taxonomy suggested on the previous slides; and
  - discuss a general policy for double tagging at a future meeting?

- Are you aware of other cases in which double tagging should be recommended?

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