

## Agenda Paper 1

# Exposure Draft *General Presentation and Disclosures*

Capital Markets Advisory Committee – March 2020

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

# Purpose of this session

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- The staff will provide an overview of the proposals included in the Exposure Draft (ED) *General Presentation and Disclosures*, and provide context around topics expected to generate most discussion, and discuss questions included in the ED.
- CMAC members will be given the opportunity to ask any clarifying questions regarding the proposals.
- In addition, the staff will seek preliminary feedback from CMAC members on the proposals. The discussion of feedback is expected to continue during the Joint CMAC-GPF meeting in June 2020.



- The Board published the ED in December 2019, in response to users' demand to improve how information is communicated in the financial statements, with a focus on the statement of profit or loss.
- The Board is seeking feedback on the ED from stakeholders. The consultation period ends on 30 June 2020.
- The proposals, if finalised, would result in a new Standard and replace IAS 1 *Presentation of Financial Statements* (see slide 41 for the structure of the ED).



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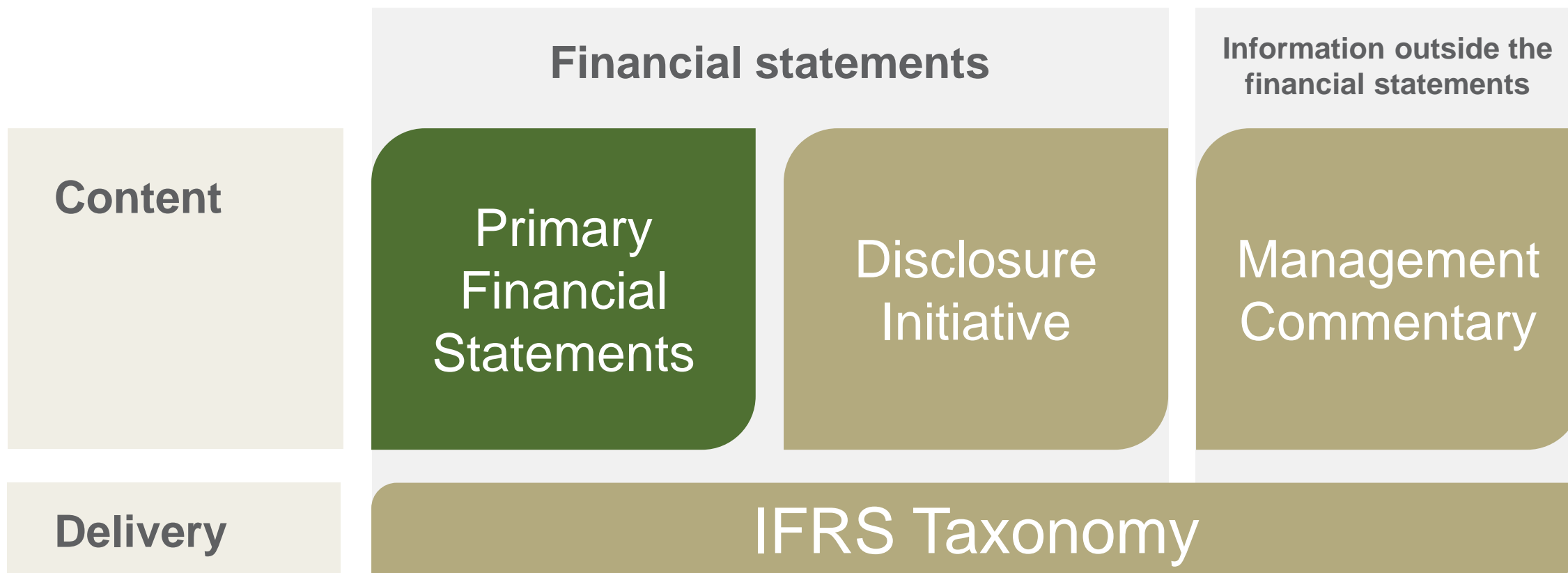
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# Project background & overview

## Better Communication in Financial Reporting





# Primary Financial Statements project

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**objective**

To improve how information is communicated in the financial statements, with a focus on information included in the statement of profit or loss

**2015**

Agenda  
Consultation  
identified the project  
as a priority

**2016-2019**

Board  
discussions to  
develop  
Exposure Draft

**Q4 2019**

Exposure Draft  
published for  
public comment

**H1 2020**

Comment period  
(ends 30 June)




**H2 2020**

Board starts  
redeliberations



# Key proposals in the ED & expected benefits

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What users said 	Key proposals 	Expected benefits of proposals 
Structure and content of statements of profit or loss varies between different entities, making it difficult to compare entities' performance	<b>1</b> Introduce <b>defined subtotals</b> in the statement of profit or loss	Additional relevant information and a P&L structure that is more comparable between entities
Level of disaggregation does not always provide the information they need	<b>2</b> Strengthen requirements for <b>disaggregating information</b>	Additional relevant information and material information not being obscured
Non-GAAP measures can provide useful information, but transparency and discipline need to be improved	<b>3</b> Require companies to disclose information about <b>management performance measures</b> in the notes.	Transparency & discipline in use of such measures Disclosures in a single location
Classification and presentation options make it more difficult to compare entities	<b>4</b> Introduce targeted improvements to the <b>statement of cash flows</b>	Improved comparability between entities

# ① Subtotals in the statement of profit or loss

# 1 What is the issue?

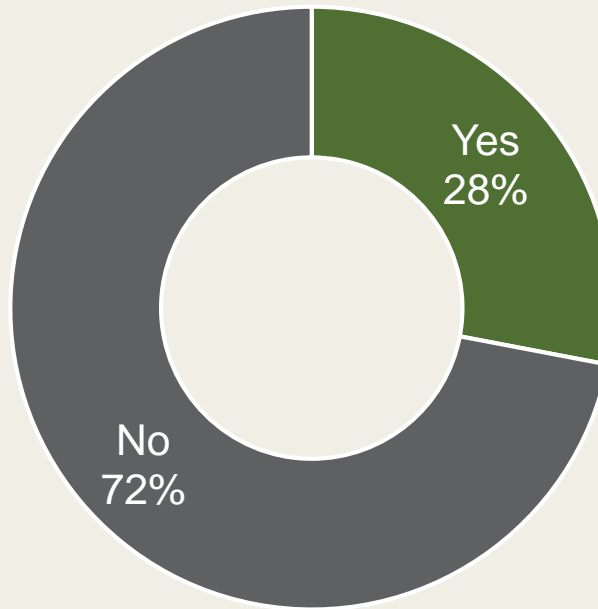
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No subtotals defined in statement of profit or loss between 'revenue' and 'profit or loss' (ie top-line and bottom-line)

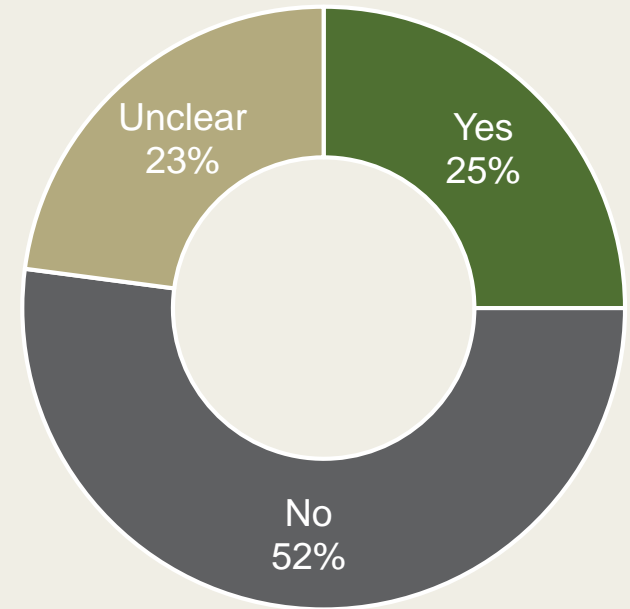
Companies calculate subtotals in different ways

In a sample of 100 companies, we found that 63 companies reported operating profit in the financial statements, using at least nine different definitions.

Share of profit or loss of associates and joint ventures included in operating profit?



Interest cost on defined benefit pension liabilities included in operating profit?



# 1 Board proposals—subtotals and categories

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Revenue	347,000
Other income	3,800
Changes in inventories of finished goods and work in progress	3,000
Raw materials used	(146,000)
Employee benefits	(107,000)
Depreciation	(37,000)
Amortisation	(12,500)
Professional fees and other expenses	(10,030)
<b>Operating profit</b>	<b>41,270</b>
Share of profit or loss of integral associates and joint ventures	(600)
<b>Operating profit and income and expenses from integral associates and joint ventures</b>	<b>40,670</b>
Share of profit or loss of non-integral associates and joint ventures	3,380
Dividend income	3,550
<b>Profit before financing and income tax</b>	<b>47,600</b>
Expenses from financing activities	(3,800)
Unwinding of discount on pension liabilities and provisions	(3,000)
<b>Profit before tax</b>	<b>40,800</b>
Income tax	(7,200)
<b>Profit for the year</b>	<b>33,600</b>

Operating

Integral associates  
and joint ventures

Investing

Financing

# 1 What would be included in each of the categories?

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## Operating



- Includes information about income and expenses from an entity's main business activities.
- Default category—income and expenses would be classified in the operating category unless they are classified in the other categories.

## Investing



- Aims to capture income and expenses from investments that investors typically seek to analyse separately from an entity's operations.
- Includes items such as fair value changes on investment property and financial assets (other than cash & cash equivalents).

## Financing



- Would help investors compare companies' performance before the effects of companies' financing decisions.
- Includes income and expenses from cash and cash equivalents, income and expenses on liabilities arising from financing activities and interest income and expenses on other liabilities, such as the unwinding of a discount on pension liabilities.

(see next side for 'integral associates and joint ventures category')

# 1 Presentation of associates and joint ventures

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Different  
stakeholder  
views



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

The share of associates' and JVs' profit is after financing and after tax so I want to analyse them separately from operating profit.



Proposal—  
balanced  
approach

Companies would be required to:

- **exclude** income and expenses from **all** equity-accounted associates and joint ventures from operating profit.
- identify which of their equity-accounted associates and joint ventures are closely related (**'integral'**) to their main business activities. Income and expenses from integral associates and joint ventures would be presented **immediately below operating profit**. Income and expenses from **non-integral** associates and joint ventures would be presented in the **investing** category.

## The Board is proposing not to define EBITDA

This is because the Board could not identify a single underpinning concept—there is no consensus among users about what EBITDA represents, other than it being a useful starting point for various analyses. Its calculation is diverse in practice.

The Board is proposing to define ‘operating profit before depreciation and amortisation’ as a measure that entities can provide in the financial statements without having to provide the MPM disclosures.

The Board decided not to label this measure ‘EBITDA’ because its content does not match what the acronym ‘EBITDA’ stands for.



# 1 EBITDA definitions in practice

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Diversity in definitions used by companies and investors

## EBIT

Subtotal used as starting point

Operating profit or profit before financing?

- Includes or excludes the share of profit of associates and joint ventures?
- Includes or excludes income or expenses from investments, eg interest income?

## DA

Adjustments

- Depreciation and amortisation
- Includes or excludes impairment?
- Includes or excludes other non-cash items (eg fair value gains/losses)?
- Includes or excludes unusual items?

The last 3 types of adjustments appear to be more common in measures labelled 'adjusted EBITDA' than for ('plain vanilla') EBITDA?

# 1 Application to financial entities

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The Board proposes requirements for some companies, such as banks, to classify income and expenses in the operating category that would otherwise be classified in the investing or financing category.



This approach achieves the objective that operating profit includes income and expenses from companies' main business activities.



# 1 Example—investment and retail bank

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Interest revenue calculated using the effective interest method	356,000
Interest expense	(281,000)
<b>Net interest income</b>	<b>75,000</b>
Fee and commission income	76,800
Fee and commission expenses	(45,300)
<b>Net fee and commission income</b>	<b>31,500</b>
<b>Net trading income</b>	<b>9,100</b>
<b>Net investment income</b>	<b>11,600</b>
Credit impairment losses	(17,300)
Employee benefits	(55,100)
[other line items not shown in this illustration]	(11,800)
<b>Operating profit</b>	<b>43,000</b>
Share of profit or loss of integral associates and joint ventures	(2,400)
<b>Operating profit and income and expenses from integral associates and joint ventures</b>	<b>40,600</b>
Share of profit or loss of non-integral associates and joint ventures	4,200
<b>Profit before tax</b>	<b>44,800</b>
Income tax expense	(11,200)
<b>Profit for the year</b>	<b>33,600</b>

all expenses from financing activities are classified in the operating category rather than the financing category

income (expenses) from investments made in the course of main business activities are classified in the operating category, rather than the investing category

no 'profit before financing and income tax' subtotal



- Do members have any questions regarding the Board's proposals for subtotals and categories in the statement of profit or loss?
- Do members have any initial comments or feedback on the proposals for subtotals and categories in the statement of profit or loss?

## ② Disaggregation

## 2 Disaggregation

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Analysis of operating  
expenses by nature  
and by function  
strengthening current  
requirements

Roles of the primary  
financial statements  
and the notes

Required line items  
including goodwill

Unusual income  
and expenses

Principles for  
aggregation &  
disaggregation

Requirements for  
grouping dissimilar  
immaterial items  
avoiding 'other' labels

## 2 Disaggregation—roles and line items

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### Roles of the primary financial statements and the notes

- **Role of the primary financial statements** is to provide a structured and comparable summary of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows.
- **Role of the notes** is to:
  - provide further information necessary for users of financial statements to understand the items included in the primary financial statements; and
  - supplement the primary financial statements with other information that is necessary to meet the objective of financial statements.

### Required line items

New required line items would include:

- Goodwill (statement of financial position)
- Separate line items for integral and non-integral associates and joint ventures (statement of profit or loss, cash flows and financial position)
- Income or expenses from financing activities



## 2 Disaggregation—principles and grouping of dissimilar items

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### Principles for aggregation & disaggregation

1. Identify assets, liabilities, equity, income and expenses that arise from individual transactions or other events
2. Classify items into groups based on shared characteristics, resulting in line items in the primary financial statements that share at least one characteristic
3. Separate those line items based on further characteristics, resulting in the separate disclosure of material items in the notes

### Grouping dissimilar immaterial items

- Companies should use **meaningful labels** for groups of immaterial items, avoiding line items such as ‘other expenses’.
- If that is not possible, companies would be required to provide information in the **notes** about the **content** of such groups of items.

## 2 Analysis of operating expenses

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### Statement of profit or loss

Use method for analysis of operating expenses (by nature or by function) that provides the **most useful information**

- **Not a free choice**—the Board proposes to provide a set of indicators to help companies select a method.
- Companies should **not mix** the two methods.
- Would **remove option** to present analysis of expenses in the **notes only**.

### Notes

Disclose analysis by **nature** in the notes if analysis by function is presented in the statement of profit or loss

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

## 2 Example of analysis by nature in the notes

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Changes in inventories of finished goods and work in progress	3,000
Raw material used	(146,000)
Employee benefits	(107,000)
Depreciation	(27,000)
Amortisation	(5,500)
Impairment of property, plant and equipment	(5,000)
Impairment losses on trade receivables	(4,500)
Property taxes	(5,200)
Litigation expenses	(1,900)
Gains (losses) on derivatives	(5,500)
Other miscellaneous expenses	(4,930)
Operating expenses total	(309,530)

## 2 Unusual income and expenses

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### Definition



Income and expenses 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

Amount 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

## 2 Example of unusual items by P&L line item

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Line items in P&L that include unusual items	Unusual items by type		
	Property tax	Restructuring in country B	Total unusual items
Cost of sales		(4,990)	(4,990)
General & administrative expenses	(2,500)	(410)	(2,910)
Expenses from financing activities		(600)	(600)



- Do members have any questions regarding the Board's proposals for disaggregation including the general guidance, analysis of operating expenses and unusual items?
- Do members have any initial comments or feedback on the Board's proposals for disaggregation including the general guidance, analysis of operating expenses and unusual items?

## ③ Management performance measures



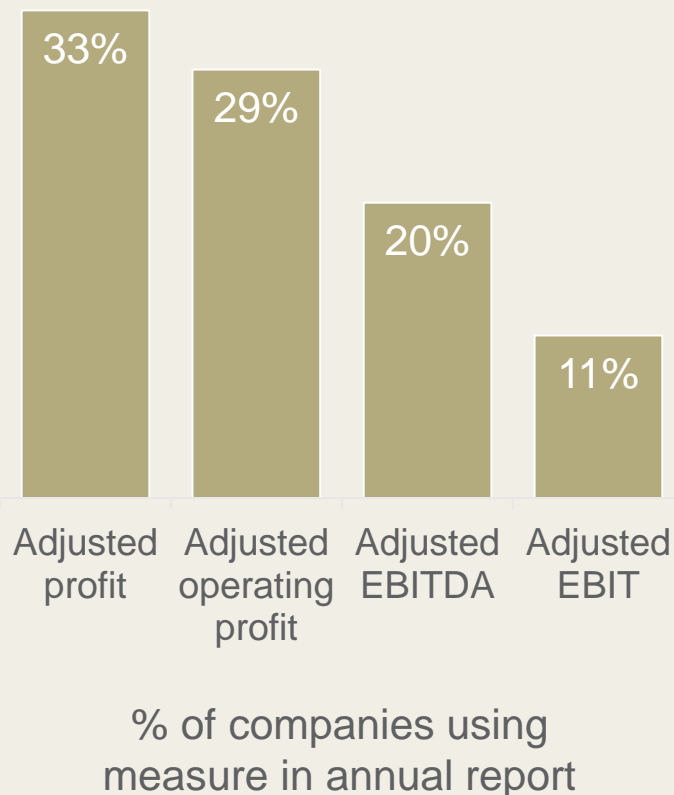
### 3 What is the issue?

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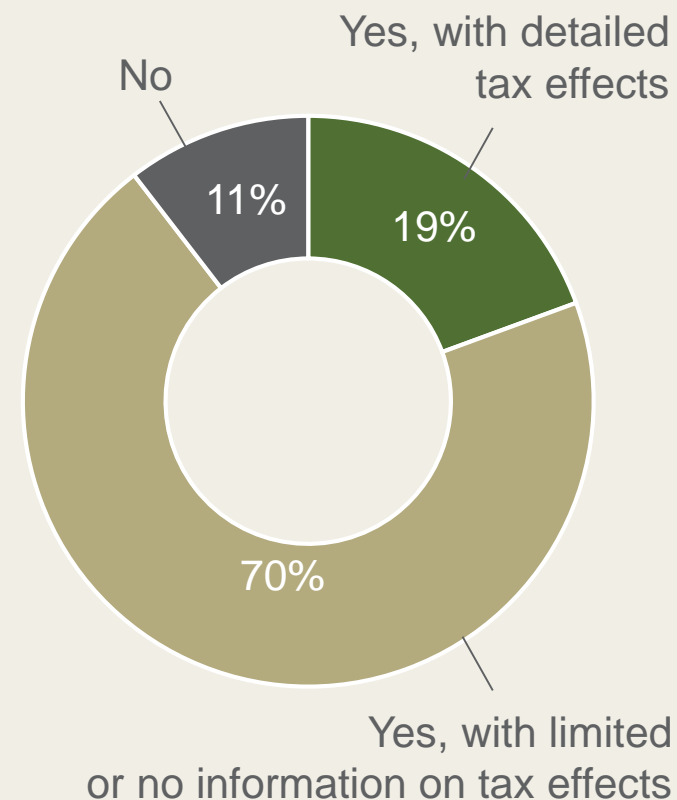
Many companies provide performance measures defined by management in communications with investors (often referred to as non-GAAP).

Investors have said such measures can provide useful information, but should be used in a more transparent and disciplined way.

Common management-defined performance measures



Is a reconciliation provided to a measure specified by IFRS Standards?



### ③ Management performance measures (MPMs)

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

Are used in public communications  
**outside financial statements**

**Complement** totals or subtotals specified by 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**

### 3 MPMs—proposed disclosures in the notes

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A **reconciliation** between the MPM and the most directly comparable subtotal or total specified by IFRS Standards

A statement that the MPM provides **management's view** of an aspect of the entity's financial performance and is **not necessarily comparable** with measures provided by other entities

A description of why the MPM communicates management's view of performance, including an explanation of:

- **how** the MPM is **calculated**
- **how** the measure provides **useful information** about the entity's financial performance

The **income tax** effect and effect on **non-controlling interests** separately for each item disclosed in the reconciliation, and how the entity determined the income tax effect

An explanation of any **changes** in how the entity calculates its MPMs or which MPMs it provides

### 3 Example of MPM reconciliation in the notes

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Adjusted operating profit (MPM)	52,870	Tax	NCI
Restructuring in Country X	(5,400)	900	(1,020)
Revenue adjustment	(6,200)	1,550	-
Operating profit (IFRS-specified)	41,270		



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

- any of the subtotals required by paragraph 81A of IAS 1 (paragraphs 60 and 73 of the Exposure Draft);
- 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



Simplified approach to calculating the tax effect

### 3 Not all performance measures are MPMs

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## Performance measures

### Non-financial performance measures

For example:

- Number of subscribers
- Customer satisfaction score
- Store surface

### Financial performance measures

#### (Sub)totals of income and expenses

#### IFRS-specified

For example:

- Profit or loss
- Operating profit
- Operating profit before depreciation and amortisation

#### MPMs

For example:

- Adjusted profit or loss
- Adjusted operating profit
- Adjusted EBITDA

#### Other measures that are not subtotals of income/expenses

For example:

- Free cash flow
- Return on equity
- Net debt
- Same-store sales

# Adjusted earnings per share

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IFRS Standards permit disclosure of adjusted EPS measures.  
Proposals would require companies to provide the same information about this measure as for management performance measures

Numerator of adjusted EPS can only be:

A subtotal specified by  
IFRS Standards

or

A management  
performance measure

attributable to holders of equity claims of the parent



- Do members have any questions regarding the Board's proposals for management performance measures?
- Do members have any initial comments or feedback on the Board's proposals for management performance measures?



## ④ Statement of cash flows

# Statement of cash flows

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## Proposals

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

Removal of classification options for interest and dividends



Cash flow item	IAS 7 classification	Proposed approach	
		Most entities	Entities with particular business activities incl. banks
Interest paid	Operating or financing	Financing	Depends on the classification of the related income and expenses in the statement of profit or loss (mostly operating)
Interest received	Operating or investing	Investing	
Dividends received	Operating or investing	Investing	
Dividends paid	Operating or financing	Financing	Financing

# Statement of cash flows – illustration (indirect method)

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Operating profit	X
Adjustments for:	
Depreciation	X
[...]	
Income taxes paid	(X)
Net cash from operating activities	X
Acquisition of integral joint venture X	(X)
Acquisition of non-integral associate Y	(X)
Dividends received from integral associate A	X
Dividends received from non-integral associate B	X
Purchase of property, plant and equipment	(X)
[...]	
Net cash used in investing activities	(X)
Dividends paid	(X)
[...]	
Net cash used in financing activities	(X)
Net increase in cash and cash equivalents	X

Consistent starting point  
for indirect method for  
operating cash flows

Separate presentation of  
cash flows from integral  
and non-integral  
associates and joint  
ventures within investing  
cash flows

Elimination of  
classification options for  
interest and dividends

# Questions for discussion—cash flows

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- Do members have any questions regarding the Board's proposals for the statement of cash flows?
- Do members have any initial comments or feedback on the Board's proposals for the statement of cash flows?

# Interim results reporting

# Requirements for interim financial reports

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The Exposure Draft proposes amendments to requirements for interim reporting

Entities shall include the following information in the interim financial report:

Disclosures about unusual  
income and expenses as  
defined in the ED

Disclosures about  
management performance  
measures

In addition, IAS 34.10 requires condensed financial statements to include the **same headings and subtotals** as annual financial statements. \*

\*: For first year application, condensed financial statements shall present the required headings and subtotals, despite the requirements in IAS 34.10

# The Exposure Draft

# The Exposure Draft

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## New IFRS Standard



Proposed **new** presentation and disclosure requirements +

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

## Amendments to other Standards

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

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



**Withdraw IAS 1**





# Illustrative examples included in the ED

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## Examples would be non-mandatory

### Statement of profit or loss

- a manufacturer
- a property investment entity
- an insurance entity
- an investment and retail bank
- a manufacturer providing financing to customers

### Statement of cash flows

- a non-financial entity
  - a financial entity
- (both based on the current illustrative examples in IAS 7)

### Notes

- analysis of operating expenses by nature
- MPMs and unusual income and expenses

# Appendix A—Questions in the Exposure Draft

# Questions in the ED—categories

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- Do you agree with the Board’s proposal to require all entities to present an operating profit or loss subtotal in the statement of profit or loss?
- Do you agree with the way the Board has defined the operating category?
- If not, what alternative approach would you suggest and why?



- Do you agree with how the Board has defined the investing category?
- Do you agree with how the Board has defined the financing category?
- Do you agree with the proposal to require (most) entities to present a ‘profit before financing and income tax’ subtotal?
- If not, what alternative approach would you suggest and why?



- Do you agree with the Board's proposed distinction between integral and non-integral associates and joint ventures?
- Do you think the proposed set of indicators would provide sufficient guidance for entities to identify integral and non-integral associates and joint ventures?
- Do you agree with the proposed presentation of income and expenses from integral and non-integral associates and joint ventures in the statement of profit or loss?
- If not, do you prefer any of the alternative approaches on the previous slide?



- Do you agree with the Board's proposed approach not to define EBITDA?
- If not, what alternative approach would you suggest and why?



- Do you agree with the Board's proposed approach to operating profit for financial entities?
- If not, what alternative approach would you suggest and why?



- Do you agree with the Board's proposed descriptions of the roles of the primary financial statements and the notes?
- Do you agree with the Board's proposed principles and general requirements on aggregation and disaggregation?
- If not, what alternative approach would you suggest and why?



- Do you agree with the Board's proposed approach to the analysis of operating expenses?
- If not, what alternative approach would you suggest and why?





- Do you agree with the Board's proposed approach to defining and requiring the disclosure of unusual income and expenses?
- If not, what alternative approach would you suggest and why?



- Do you agree with the Board's proposed approach to defining management performance measures?
- Do you agree with the proposed disclosure requirements for management performance measures?
- If not, what alternative approach would you suggest and why?



- Do you agree with the Board's proposal to require operating profit or loss as the starting point for the reconciliation of operating cash flows under the indirect method?
- Do you agree with the Board's proposed approach for classification of interest and dividend cash flows?
- If not, what alternative approach would you suggest and why?

# Appendix B—Summary of previous CMAC meetings

# Summary of previous CMAC meetings

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Jun 2019, CMAC-GPF	The session was to help the staff develop illustrative examples included in the Exposure Draft. Members discussed three examples: a) presentation of subtotals; b) disclosure of MPMs; and c) disclosure of unusual items.
Nov 2018, CMAC	The session was to seek feedback on the main project proposals, namely: a) defined subtotals in P&L; (b) MPMs; and (c) disaggregation.
Jun 2018, CMAC-GPF	The session was to seek the views on proposals to improve aggregation and disaggregation in the financial statements.
Mar 2018, CMAC	The session was to seek feedback on the possibility of: (a) introducing MPMs and management-defined adjusted EPS into the financial statements; and (b) improving the presentation of the share of profit or loss of associates and joint ventures in P&L.
Oct 2017, CMAC	The session was to provide a project update and to gain CMAC members' views on useful subtotals for the presentation of financial performance for banks.
Jun 2017, CMAC-GPF	The session was to seek the views on proposals to introduce two subtotals in P&L: (a) earnings before finance income/expenses and tax (EBIT); and (b) a management performance measure.
Mar 2017, CMAC	The session was to consult CMAC members on their use of financial statement information, specifically on their use of entities' financial statements, data aggregators' standardised information and entity-provided performance measures.

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