

Emerging Economies Group
May 2020
Agenda paper 6

Exposure Draft *General Presentation and Disclosures*

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



- To provide an overview of the Exposure Draft (ED) *General Presentation and Disclosures*.
- Provide an opportunity for EEG members to ask questions and provide preliminary feedback from their jurisdictions.
- A summary of last EEG meeting can be found here:
<https://cdn.ifrs.org/-/media/feature/groups/eeg/eeg-report-december-2019.pdf>



- Do members have any questions or initial feedback from your respective jurisdictions on the Board's proposals for:
 - subtotals in the statement of profit or loss;
 - disaggregation;
 - management performance measures; and
 - statement of cash flows




Structure of discussion

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	Slides
Overview of proposals	5–6
Topics for discussion	7–36
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Overview of proposals

Key proposals in the ED & expected benefits

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

① Subtotals in the statement of profit or loss

1 What is the issue?

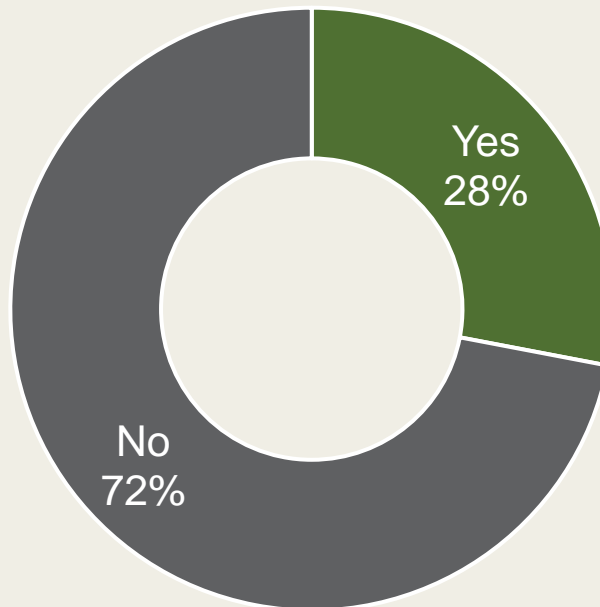
No subtotals defined by IFRS Standards between 'revenue' and 'profit or loss'



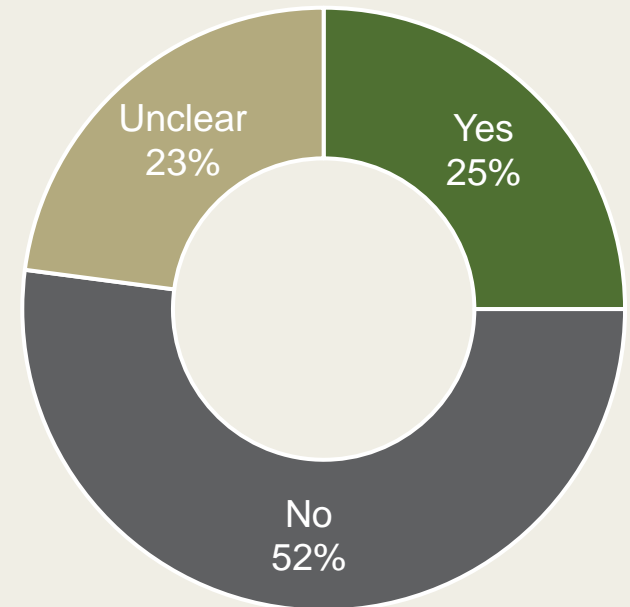
Companies calculate subtotals in different ways

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

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)
Operating profit	41,270
Share of profit or loss of integral associates and joint ventures	(600)
Operating profit and income and expenses from integral associates and joint ventures	40,670
Share of profit or loss of non-integral associates and joint ventures	3,380
Dividend income	3,550
Profit before financing and income tax	47,600
Expenses from financing activities	(3,800)
Unwinding of discount on pension liabilities and provisions	(3,000)
Profit before tax	40,800
Income tax	(7,200)
Profit for the year	33,600

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



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

Financing



- 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.
- Would help investors compare companies' performance independently of the effects of companies' financing decisions.

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

1 Presentation of associates and joint ventures

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.

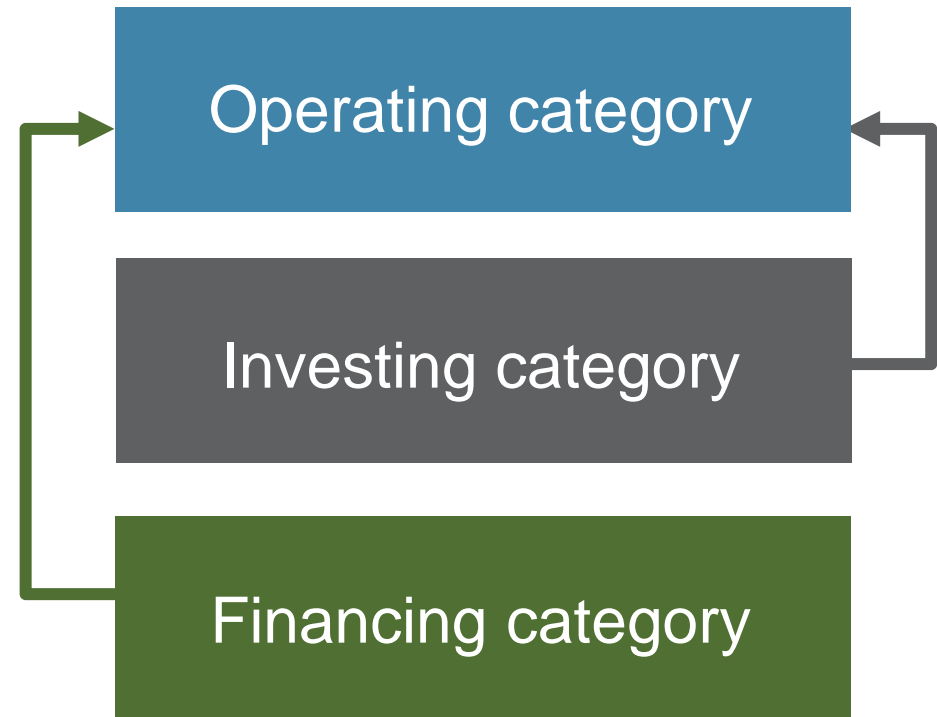
The Board decided not to label this measure ‘EBITDA’ because its content does not match what the acronym ‘EBITDA’ stands for.

1 Application to financial entities

Operating profit is intended to include income and expenses from companies' main business activities.



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.



1 Example—investment and retail bank

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

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 from your respective jurisdictions?

② Disaggregation

2 Disaggregation

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

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—additional guidance

Principles for aggregation & disaggregation

- Identify assets, liabilities, equity, income and expenses that arise from individual transactions or other events
- Classify items into groups based on shared characteristics, resulting in line items in the primary financial statements that share at least one characteristic
- 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

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

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

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

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 additional guidance, analysis of operating expenses and unusual items?
- Do members have any initial comments or feedback on the Board's proposals from your respective jurisdictions relating to proposals on disaggregation?

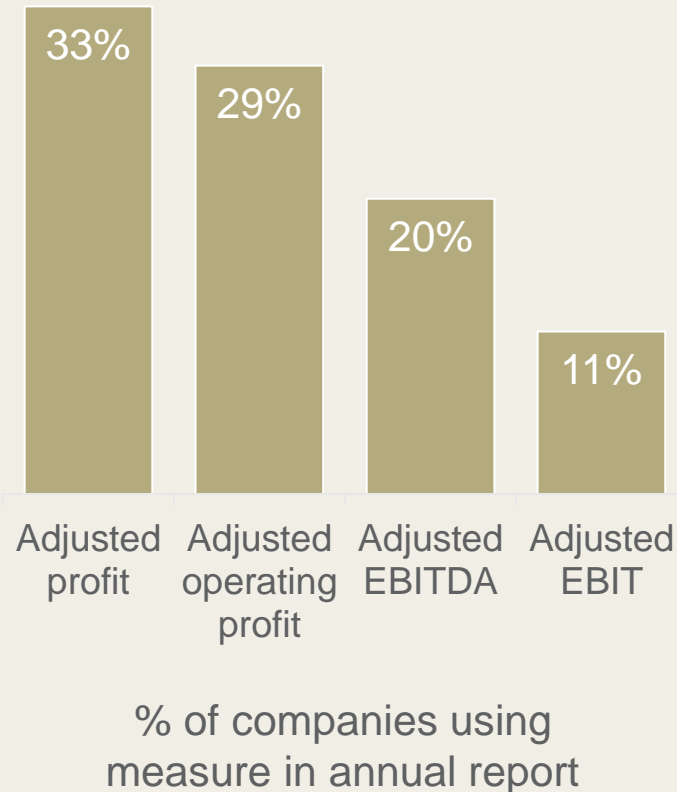
③ Management performance measures

3 What is the issue?

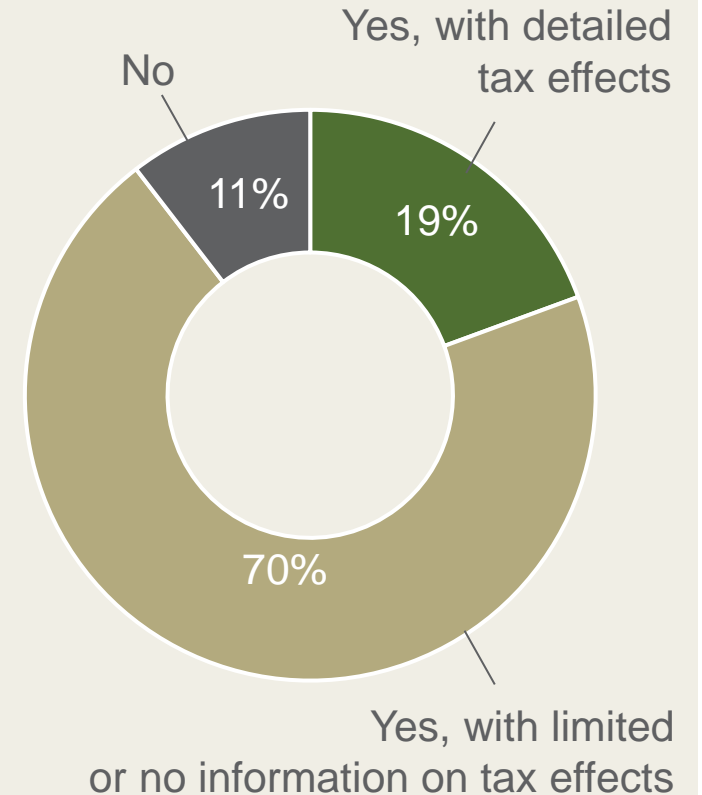
Many companies provide performance measures defined by management in communications with investors.

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

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

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

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

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



Ensures that users receive the same information about adjusted earnings per share as they receive for management performance measures.



- 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 from your respective jurisdictions?

④ 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	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)

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



- 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 from your respective jurisdictions?

Appendix A—The Exposure Draft



- 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 September 2020*.
- The proposals, if finalised, would result in a new Standard and replace IAS 1 *Presentation of Financial Statements* (see slide 40 for the structure of the ED).

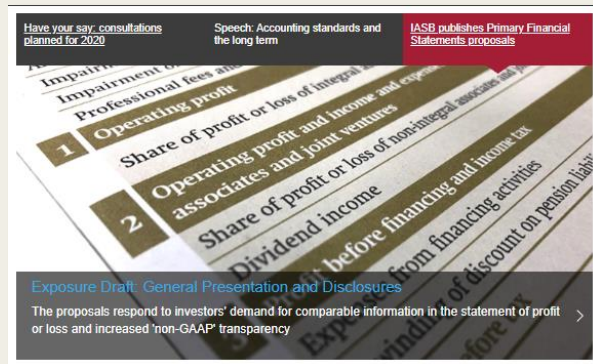
* Extended from June 30th due to covid-19 pandemic.



- [Exposure Draft](#)
 - [Basis for Conclusions](#)
 - [Illustrative Examples](#)
- and a comparison of proposals with requirements of IAS 1



[Snapshot](#)



[Webinar introducing the Exposure Draft](#)



[Video](#) of Hans introducing the proposals

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

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

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