



STAFF PAPER

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Project	Primary Financial Statements	
Paper topic	Plan for redeliberations	
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Objective

1. This paper discusses the plan for redeliberating the Primary Financial Statements project proposals.

Structure of the paper

2. This paper is structured as follows:
 - (a) Background (paragraph 3–4);
 - (b) Key messages from the feedback on the Exposure Draft (paragraphs 5–9);
 - (c) Plan for redeliberations (paragraphs 10–37);
 - (i) Factors to consider in approaching redeliberations (paragraphs 11–19);
 - (ii) General approach to redeliberations (paragraphs 20–26); and
 - (iii) Approach to redeliberations by project topics (paragraphs 27–37); and
 - (d) Project timing (paragraphs 38–39).

Background

3. In December 2019 the Board published the Exposure Draft *General Presentation and Disclosures*, which sets out proposals to improve how information is communicated in the financial statements, with a focus on information in the statement of profit or loss. The comment period ended 30 September 2020, with stakeholders sending 215 comment letters. We also conducted outreach, with a particular focus on users of financial statements, and fieldwork with 50 companies to test the proposals.
4. In the Exposure Draft the Board proposes:
 - (a) new subtotals in the statement of profit or loss. These subtotals would provide relevant information and create a consistent structure to the statement of profit or loss, thereby improving comparability between entities. These proposals would also require entities to present information about integral associates and joint ventures separately from non-integral associates and joint ventures.
 - (b) improved requirements for disaggregation to help an entity provide relevant information including:
 - (i) disaggregation principles;
 - (ii) disaggregation of operating expenses either by nature or by function in the statement of profit or loss;
 - (iii) a requirement for disaggregation of large 'other' balances;
 - (iv) a requirement to disaggregate information about unusual income and expenses; and
 - (v) additional minimum line items in the primary financial statements.
 - (c) requirements for disclosure of some management-defined performance measures—that is, performance measures not specified by IFRS Standards.
 - (d) limited changes to the statement of cash flows to improve consistency in classification of cash flows.

Key messages from the feedback

5. The proposals in the Exposure Draft have been generally well-received by respondents, in particular by users of financial statements who have expressed strong agreement with the project objectives and the specific proposals.
6. Across all respondents, there is general agreement with the proposals for categories and subtotals in the statement of profit or loss, and the proposals for management performance measures. Entities that participated in fieldwork relating to these proposals were able to apply these proposals without significant challenges. However, many respondents suggested to expand the scope of proposals for management performance measures to include more non-GAAP measures.
7. Respondents generally expressed agreement with the *objectives* of the proposals for improved requirements on disaggregation relating to principles and unusual income and expenses. However, many respondents raised concerns about aspects of the proposals including the proposed definition of unusual income and expenses. The preparers that participated in the fieldwork found they could apply these proposals, but raised application questions relating to unusual income and expenses, and found that the general proposals for disaggregation had little effect on the information they included in the financial statements.
8. Respondents expressed mixed views on the proposals relating to integral and non-integral associates and joint ventures, and the proposal for analysing operating expenses by nature and by function. In relation to both sets of proposals, respondents commented on both conceptual and operational challenges. Fieldwork participants found these proposals difficult to apply.
9. Appendix to AP21—*Cover paper and summary of feedback* provides a more detailed overview of feedback received.

Plan for deliberations

10. In planning the redeliberations, we considered the following:
 - (a) factors to consider in deciding how to approach the redeliberations;

- (b) general approach to redeliberations; and
- (c) approach to redeliberations by individual project topics, including detailed list of topics for discussion.

Factors to consider

11. We think there are four main factors to consider in deciding how to approach the redeliberations:

- (a) project objective and its focus;
- (b) linkages between project topics;
- (c) timeliness; and
- (d) efficiency.

Project objective and its focus

12. The objective of the project, as set out in the Basis for Conclusions of the Exposure Draft, is to improve how information is communicated in the financial statements, with a focus on information included in the statement of profit or loss. This objective directly responds to user demand to focus on reporting of financial performance.

13. It is appropriate to prioritise work in areas that fit directly within the focus of the project objective, that is information presented in the statement of profit or loss.

14. Considering the project objective, and its focus on the statement of profit or loss, will be important when assessing whether to make changes to project scope that some stakeholders have suggested. For example, some new topics suggested by stakeholders would arguably fit within the focus of the project, for example a comprehensive review of the requirements relating to minimum line items, at least in relation to the statement of profit or loss. Some other topics suggested by stakeholders would be harder to include within the focus of the project, for example:

- (a) a review of requirements relating to the statement of cash flows or the statement of financial position, or
- (b) a significant expansion of the scope of management performance measures, for example to include measures based on information about assets and liabilities.

Linkages between project topics

15. There are many linkages between different topics in the project. It is important to consider the linkages because decisions on one topic may affect the approach to another topic. It may be appropriate to consider some topics together to avoid potentially having to revisit decisions on one topic after the related topic is discussed. For example, it may be appropriate to decide whether unusual income and expense should be classified in the operating category at the same time as deciding on proposals for categories, even if that is before the discussion of the rest of the proposals relating to unusual income or expenses.

Timeliness

16. Completing the project on timely basis is important. This is a project that users of financial statements want implemented as soon as possible. Some users have said that they would be satisfied with a narrower project scope if that means the proposals could be finalised sooner. The Board already considered timeliness when deciding on the project objective and its scope. For example, the Board decided to focus the project objective on the statement of profit or loss to enable the project to be completed on a timely basis. In another example, the decision to exclude presentation of discontinued operations from the scope of the project was taken to ensure that the project could be completed on a timely basis. Considering timeliness is important when deciding on whether to change the scope of the project, even for changes that appear to meet the objective of the project.

Efficiency

17. Efficient use of resources and Board time is important. Considering efficiency, it may be appropriate to prioritise work on project areas where the feedback has been relatively straightforward, and which the Board can efficiently proceed with finalising.
18. It may also be appropriate to adopt a staged approach to topics which have received mixed feedback. Applying a staged approach, we would ask the Board to decide on overall direction for a topic, before developing detailed proposals. This approach helps avoid spending time working on proposals which the Board may not want to pursue. We discuss the staged approach further in paragraph 22.

19. Finally, it may also be appropriate to bring a topic for Board discussion when resources for that topic are available, even if that is before discussion of project topics that are of higher priority for the project.

General approach to redeliberations

20. Considering the factors discussed in paragraphs 11–19, we assessed which project topics:
- (a) require a staged approach to redeliberations;
 - (b) should be prioritised in redeliberations; and
 - (c) could be removed or added to the scope of the project.

Staged approach

21. Proposals for some project topics were generally well received and we expect the Board will proceed with those. For those topics we plan to give a brief explanation of why we think the Board should proceed with the basic approach and ask the Board to confirm that approach. In the same paper, we plan to move immediately on to targeted discussions on these topics, on the assumption that the Board gives the required confirmation. Also, for those topics, we do not expect to redeliberate every aspect of the proposals. We think the main topics in this category are:
- (a) subtotals and categories in the statement of profit or loss (with the exception of proposals for integral and non-integral associates and joint ventures);
 - (b) management performance measures (however we plan to use a staged approach for an aspect of this proposal, see paragraph 23);
 - (c) disaggregation principles and roles of primary financial statements and the notes; and
 - (d) amendments to the statement of cash flows.
22. Other proposals received mixed feedback and, for those, the Board may need to consider multiple ways forward. For such proposals, we plan a staged approach to redeliberations—we would initially bring a paper to discuss the proposal objectives and the feasibility of alternative approaches to meeting those objectives, asking the

Board to decide on the general direction. Following on and reflecting that initial discussion, we would bring a paper discussing details of the proposals. We think the main topics in this category are:

- (a) minimum line items;
 - (b) analysis of operating expenses;
 - (c) unusual income and expenses; and
 - (d) integral and non-integral associates and joint ventures.
23. We also plan to use a staged approach when discussing whether to extend the scope of management performance measures to include measures other than income and expense subtotals.
24. Paragraphs 27–37 provide more detail on the proposed approach for each of the project topics.

Priorities

25. Our list of priorities for redeliberations and the reasons for it are as follows:
- (a) subtotals and categories in the statement of profit or loss; this is at the centre of the focus of the project (that is information presented in the statement of profit or loss), with operating profit sometimes described by stakeholders as the ‘star of the project’. In addition to being at the centre of the project, the proposals were well received by stakeholders, enabling us to efficiently proceed with finalising them. However, we think the initial discussion should not include proposals relating to classifying equity-accounted associates and joint ventures as integral or non-integral because these proposals are not the primary focus of the project and because they attracted mixed responses and thus will require a different approach and potentially take longer time to finalise (see paragraph 3030(e)).
 - (b) management performance measures; this proposal would provide information that complements information provided by the subtotals in the statement of profit or loss and thus forms part of the project focus. In addition, this is another proposal that stakeholders generally supported (a user described the

proposal in a meeting as ‘the best thing the Board has done in 20 years’), even if many wanted the scope to be broader.

- (c) the roles of primary financial statements and notes and general proposals for disaggregation. These proposals were well received in principle, but stakeholders asked for them to be developed more. Also, these proposals set the framework for work on the specific disaggregation proposals, including unusual income and expenses, and the analysis of operating expenses, as well as minimum line items.
- (d) classifications in the statement of cash flows. This proposal has generally been well received by stakeholders, and thus can be finalised efficiently.

Changes in project scope

- 26. There are a number of decisions to be made in relation to project scope, for example on whether to consider extending the scope of management performance measures beyond income and expense subtotals. This is reflected in the staged approach proposed for several project topics, discussed in paragraphs 22–24.

Approach to redeliberations by project topics

- 27. The following paragraphs set out the proposed approach for redeliberation on each of the main areas of the project, that is:
 - (a) categories in the statement of profit or loss;
 - (b) management performance measures; and
 - (c) disaggregation and other topics.

Categories in the statement of profit or loss

- 28. We plan to make two assumptions in drafting the Board papers:
 - (a) the Board will proceed with defining and requiring entities to present an operating profit subtotal. Most respondents across all jurisdictions and stakeholder types (including all users) agreed that defining and requiring entities to present an operating profit subtotal would provide relevant and comparable information in the statement of profit or loss; and

- (b) the Board will proceed with defining the operating category as a default category for income and expenses not classified elsewhere. Many respondents (including almost all users) agreed that this is a pragmatic approach to defining operating profit.
29. We therefore plan, in the initial paper, to ask the Board to confirm this approach and, in the same paper, to provide analysis and recommendations on which income and expenses should be excluded from operating profit.
30. Following the initial paper, we plan to address the remaining topics in follow up papers:
- (a) the financing category and the subtotal of profit before financing and income taxes including;
 - (i) the classification of income and expenses from cash and cash equivalents;
 - (ii) the definition of ‘financing activities’;
 - (iii) the classification of interest income and expenses on liabilities not arising from financing activities;
 - (iv) the classification of interest on trade payables and trade receivables; and
 - (v) whether the category should include incremental expenses.
 - (b) the investing category, including:
 - (i) whether it should be a separate category;
 - (ii) the definition of ‘income and expenses from investments’;
 - (iii) whether to provide additional guidance on incremental expenses;
 - (iv) its alignment with cash flows from investing activities; and
 - (v) whether it should include income and expenses from investment and divestment decisions.
 - (c) the application of proposals by entities with particular main business activities, including:

- (i) whether and, if so what, additional guidance on ‘main business activities’ should be provided;
 - (ii) how to determine whether an entity ‘invests in the course of its main business activities’; and
 - (iii) the proposed accounting policy choice for entities that provide financing to customers as a main business activity.
- (d) the classification of foreign exchange differences and gains and losses from derivatives, including:
- (i) whether foreign exchange differences should be allocated to the related categories;
 - (ii) the classification of gains or losses on undesignated derivatives; and
 - (iii) the proposed classification of gains or losses on derivatives in the investing category in case of offsetting hedged positions or undue cost or effort.
- (e) the classification of income and expenses from associates and joint ventures. This discussion will follow the staged approach discussed in paragraph 22. Our initial paper will ask the Board whether it wants to proceed with each of the proposals relating to associates and joint ventures (making the distinction between integral and non-integral associates and joint ventures, and requiring the related subtotal and minimum line items) and whether it is feasible to adopt any other approaches. Subsequent papers will develop the proposals the Board decides to pursue.

Management performance measures

31. We plan to assume that the Board will proceed with the proposals to include information about management performance measures in the financial statements, on the basis that many respondents, including almost all users, agreed that the proposals would provide improve transparency and provide relevant information about financial performance.
32. Therefore, the initial paper will ask the Board to confirm the proposal to include information about management performance measures in the financial statements.

33. We also plan to include in the initial paper an analysis of whether it is feasible within this project to broaden the scope of management performance measures. Many respondents suggested expanding the scope to include measures such as those based on items presented in the statement of financial position or the statement of cash flows. Any change in scope would have an effect on the rest of the proposals relating to management performance measures, for example disclosure requirements. If the Board decides to explore expanding the scope, subsequent papers will address what that scope should be.
34. Following the initial paper, we plan to address the remaining topics in follow up papers:
- (a) remaining aspects of the definition of management performance measures including addressing feedback that the following components may require clarification:
 - (i) the scope implied by defining management performance measure as measures of performance included in public communications;
 - (ii) the need to explicitly state that management performance measures should faithfully represent an aspect of an entity’s performance given the general requirement for information in financial statements to provide a faithful representation;
 - (iii) whether defining management performance measures by reference to management’s view of performance may unintentionally exclude some measures (for example industry measures); and
 - (iv) whether additional guidance may be required to help entities identify any measures that would be excluded from the definition because they do not complement subtotals specified in IFRS Standards;
 - (b) interaction of management performance measures with other requirements including:
 - (i) proposals for unusual income and expenses;
 - (ii) segment reporting;
 - (iii) other subtotals in the statement of financial performance; and

- (iv) earnings per share measures;
- (c) disclosure requirements, including:
 - (i) the proposals relating to the reconciliation;
 - (ii) the requirement to disclose tax and non-controlling interests;
 - (iii) presentation restrictions such as the restriction on the use of columns; and
 - (iv) whether specific guidance is needed for non-GAAP measures that are not management performance measures; and
- (d) requirements relating to EBITDA.

Disaggregation

- 35. We plan to make no specific assumptions when drafting the Board papers. As discussed in paragraph 25, we plan to start with an analysis and recommendations on the roles of the primary statements and notes, and the proposed general guidance for disaggregation. We expect we will need further papers to finalise the proposals for general disaggregation guidance.
- 36. After the initial paper, we will bring subsequent papers, using a staged approach discussed in paragraph 22, covering the following topics:
 - (a) minimum line items. The initial paper on this topic will include a discussion of whether we should undertake a comprehensive review of minimum line items as suggested by some stakeholders.
 - (b) the analysis of operating expenses by nature and function. The initial paper on this topic will cover the general approach and scope of work, asking the Board to clarify the objective of the proposals, which proposals it wants to proceed with and whether it is feasible to adopt any other approaches to meeting the objective of the proposals. This will be followed by more detailed papers.
 - (c) unusual income and expenses. The initial paper will cover the objective and general direction of the proposals, asking the Board to clarify the objective of the proposals, which proposals it wants to proceed with and whether it is

feasible to adopt any other approaches. This will be followed by more detailed papers.

- (d) specified and additional subtotals (excluding EBITDA which would be discussed as a part of package of papers on management performance measures).

37. Other topics that will be discussed in the redeliberations include:

- (a) proposals relating to items of other comprehensive income;
- (b) requirements carried over from IAS 1;
- (c) amendments to other IFRS Standards;
- (d) transition provisions; and
- (e) effective date.

Project timing

38. At present, we cannot provide an estimate for when the project will be completed.

This is because, for project topics which require a staged approach to discussion (see discussion in paragraph 22):

- (a) the Board may decide to alter the project scope or conduct further outreach or research before proceeding to the next stage; and
- (b) additional work needed on one topic may mean work on other topics has to be paused.

39. We will develop an estimated timeline once the Board has completed initial discussions on these topics.

Question for the Board

Does the Board agree with proposed plan for redeliberations? Specifically, does the Board have any comments or suggestions on:

- (a) project objective and other factors to consider in approaching redeliberations;
- (b) general approach to redeliberations; and
- (c) approach to redeliberations by project topics?