

IASB[®] meeting

Project	Primary Financial Statements	
Paper topic	Management performance measures—other aspects of definition	
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Objective

1. This paper sets out staff analysis and recommendations which respond to stakeholder comments relating to the definition of management performance measures in the Exposure Draft *General Presentation and Disclosures*, including:
 - (a) the requirement that management performance measures complement totals or subtotals specified by IFRS Standards; and
 - (b) the requirement that management performance measures communicate to users of financial statements management's view of an aspect of an entity's performance.
2. This paper should be read in conjunction with Agenda Paper 21A relating to the scope of public communications used in the definition of management performance measures and Agenda Paper 21C relating to the faithful representation of management performance measures.
3. This paper discusses feedback on the definition of management performance measures, adding detail to the discussion in Agenda Paper 21H of the December 2020 Board meeting.
4. In future papers, we plan to discuss:

- (a) interaction of management performance measures with other requirements including:
 - (i) proposals for unusual income and expenses;
 - (ii) segment reporting;
 - (iii) subtotals in the statement(s) of financial performance;
 - (iv) earnings per share measures;
 - (v) measures excluded from being management performance measures;and
- (b) disclosure requirements for management performance measures, 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.

Summary of staff recommendations in this paper

- 5. The staff recommend that the Board:
 - (a) remove ‘complements’ from the definition of management performance measures;
 - (b) add application guidance to the definition of management performance measures clarifying that management’s view of an aspect of performance is applied solely using management’s judgement; and
 - (c) retain the label ‘management performance measures’.

Structure of the paper

- 6. This paper is structured as follows:
 - (a) summary of proposals in the Exposure Draft (paragraph 7–8);

- (b) feedback (paragraphs 9–18);
- (c) staff analysis (paragraphs 19–55):
 - (i) complements (paragraphs 19–23);
 - (ii) management’s view (paragraphs 24–48); and
 - (iii) other comments (paragraphs 49–55).

Summary of proposals in the Exposure Draft

7. The Exposure Draft proposed that an entity disclose ‘management performance measures’ in a single note to the financial statements. The Exposure Draft defined management performance measures as subtotals of income and expenses that:
 - (a) are used in public communications outside financial statements;
 - (b) complement totals or subtotals specified by IFRS Standards; and
 - (c) communicate to users of financial statements management’s view of an aspect of an entity’s financial performance.
8. Paragraph B76 explains that an entity may have more than one management performance measure. However, not all entities will have management performance measures. For example, if an entity publicly communicates its financial performance to users of its financial statements, using only totals and subtotals specified by IFRS Standards, it will not have a management performance measure.

Feedback

9. Some respondents agreed with the proposed definition of management performance measures. In contrast, most respondents, including many users disagreed with one or more aspects of the definition.

Complements

10. Many respondents did not comment on the requirement for management performance measures to complement totals or subtotals specified by IFRS Standards. Some respondents said that they were not clear on how to apply the requirement and

suggested adding guidance on how to apply ‘complements’. Some were concerned that the requirement might allow entities to disqualify important measures from being management performance measures because they were not judged to complement totals or subtotals specified by IFRS Standards.

Management’s view

11. Many of the respondents that agreed with the proposed definition of management performance measures specifically agreed that management performance measures should provide management’s view of an aspect of performance.
12. However, a few respondents said that they were concerned that the requirement for a management performance measure to be based on management’s view of performance could:
 - (a) allow entities to avoid the disclosure requirements for non-GAAP measures by arguing a measure is for a different purpose than communicating management’s view of an aspect of performance; or
 - (b) prohibit measures that are typically disclosed by entities in particular industries because they are an industry view of performance and not a management view of performance.
13. A few respondents said they were not clear whether local GAAP performance measures or adjusted measures based on local GAAP would meet the definition of management performance measures. These respondents suggested that it would be onerous and costly to make the disclosures required for management performance measures for such measures.
14. A few respondents said it was unclear who should be identified as management for the purposes of deciding on management’s view. For example, these respondents asked whether it would be the same as the chief operating decision maker in IFRS 8 *Operating Segments*.

Other comments

Measures based on accounting policies that differ from IFRS Standards

15. A few respondents, mostly standard-setting bodies, disagreed that management performance measures should be permitted to be based on management defined accounting policies. These respondents said that management performance measures should be restricted to those recognised and measured in accordance with IFRS Standards because:
- (a) including such measures may impede regulators' ability to prevent misleading measures or be in conflict with local regulations;
 - (b) applying faithful representation to such measures may not be possible;
 - (c) including such measures may increase the legitimacy of such measures; and
 - (d) auditing such measures may be challenging.

Suggested improvements

16. Some respondents suggested the following potential improvements to the definition of management performance measures and application guidance:
- (a) providing further explanations or illustrative examples demonstrating how the definition would be applied to common non-GAAP measures; and
 - (b) providing further explanations of the non-GAAP measures that do not meet the definition of management performance measures including interaction of the management performance measure requirements with the requirements for unusual income and expenses.
17. A few respondents suggested clarifying the illustrative example in the Exposure Draft by including an explanation of how the illustrated management performance measures meet the definition.
18. A few respondents suggested the following potential improvements to the definition and application guidance:
- (a) changing the name management performance measures to better reflect that the measures include only subtotals of income and expenses; and

- (b) including a specific statement in the Standard or the Basis for Conclusions that management performance measures are not measures defined or specified in IFRS Standards.

Staff analysis

Complements

19. The staff agree with those stakeholders that said clarification may be needed on the application of the requirement for management performance measures to complement totals or subtotals specified by IFRS Standards (see paragraph 10). The Exposure Draft does not include guidance on how to apply the requirement and the Basis for Conclusions does not discuss the reason for including it.
20. In the staff's view, the Board included 'complement' in the definition to express that an objective of management performance measures is to provide information that is additional to the information provided by IFRS Standards, rather than a replacement for it. The intended implications were that:
 - (a) it would be understood that information provided by IFRS Standards is expected to be the primary source of information regarding an entity's performance; and
 - (b) an entity would not be required to produce a management performance measure if it communicated its performance using only measures specified in IFRS Standards.
21. Paragraphs BC167–BC169 of the Basis for Conclusions explains that management performance measures are entity specific and that it is important to understand their relationship to measures specified by IFRS Standards because they are a complement. Paragraphs BC164–BC165 explains that management performance measures would normally be less prominent than subtotals or totals specified in IFRS Standards. However, these paragraphs do not establish a clear link between the prominence of IFRS Standards and the requirement for management performance measures to complement totals or subtotals specified by IFRS Standards.

22. Paragraph B76 of the Exposure Draft provides guidance clarifying that an entity is not required to produce a management performance measure if it communicates its performance using only totals and subtotals specified by IFRS Standards. However, this guidance is not directly linked to the requirement to ‘complement’.
23. In the staff’s view, ‘complements’ should be removed from the definition of management performance measures to avoid the implication that it should be used as criteria to identify such measures, an outcome that the Board did not intend. Instead, a clear explanation in the Basis for Conclusions that an objective of management performance measures is to provide information that complements totals or subtotals specified by IFRS Standards, with the implications as explained in paragraph 20, would address stakeholder concerns.

Question for the Board

Q1 Does the Board agree with the staff recommendation to remove ‘complements’ from the definition of management performance measures?

Management’s view

24. Feedback on the Exposure Draft (see paragraphs 11–14) indicates the application of the part of the definition of management performance measures that is ‘management’s view of an aspect of performance’ could be interpreted in different ways.
25. The staff have identified two possible approaches to clarifying the application of management’s view to achieve more consistency:
 - (a) Approach A—management view is determined solely by management judgement.
 - (b) Approach B—if an entity uses a measure in public communications when there is no externally imposed requirement to, that measure is presumed to be management’s view of an aspect of performance.

Approach A

26. Management's view is determined solely by management judgement. Under this approach there is a presumption that if management says a measure is not for the purpose of communicating its view of an aspect of the entity's performance, then it is not a management performance measure.
27. The main advantage of this approach is that it clarifies that factors other than management's view are not pertinent to whether a measure reflects management's view of an aspect of performance in the definition of a management performance measure.
28. This would mean an entity would not need to include a measure that is externally imposed as a management performance measure if the entity judges that the measure does not reflect management's view, such as when required by law, regulation or contract. Conversely, it would also mean that management is able to include as management performance measures any measures that otherwise meet the definition and are determined to be in management's view, even if they are also required or influenced externally. For example, industry measures, local GAAP measures and measures required by regulation could be included if the entity decides they reflect management's view of an aspect of performance.
29. A consequence of this approach is that an entity would be able to judge that a non-GAAP measure included in its public communications does not reflect management's view of performance and is therefore not a management performance measure. For example, a measure designed to aid the understanding of its management remuneration process or provided at the request of a targeted audience, rather than to communicate management's view of performance, could be judged not to be a management performance measure.
30. The main disadvantage to this approach is that it does not address the stakeholder concern that an entity could avoid the requirements for management performance measures by saying that a measure does not reflect management's view (see paragraph 12(a)). The staff think that this risk might be mitigated in part by market discipline—investors, auditors and regulators would be likely to question why an entity includes measures in its public communications that it does not consider to be management's

view of an aspect of the entity's performance. However, it might be difficult for regulators and auditors to prevent poor practice under this approach.

31. As a consequence:
 - (a) there would be a risk to achieving the increased discipline and transparency intended by the management performance measure requirements; and
 - (b) users might be confused why a measure, judged by an entity not to reflect management's view, is not a management performance measure. This may be a particular challenge when different entities include the same measures outside financial statements but only some of these entities include them as management performance measures within the financial statements.

32. A few stakeholders raised concerns over the identity of management for the purpose of applying management's view (see paragraph 14). Additional guidance may be required under Approach A to be clear on who judges whether measures communicate management's view of an aspect of performance.

33. In the introduction to IFRS Practice Statement 1 *Management Commentary A framework for presentation* paragraph IN6 includes the following description of management:

The Practice Statement refers to 'management' as the persons responsible for the decision-making and oversight of the entity. They may include executive employees, key management personnel and members of a governing body.

34. The Basis for Conclusions to IFRS Practice Statement 1 explains in paragraphs BC29 and BC30 that an entity applies the principle of providing a management view by considering 'key management personal' as defined in IAS 24 *Related Party Disclosures* and also jurisdictional requirements for those responsible for approving management commentary.

35. In the staff's view, the use of the term 'management' in IFRS Practice Statement 1 is very similar to the purpose served in the definition of management performance measures—expressing management's view. The subject of this practice statement—Management Commentary—is also a form of communication outside the financial statements where management performance measures may be identified. Those responsible for approving management commentary would be expected to be those

responsible for approving other forms of public communication regularly provided in the periodic reporting process, which are proposed as relevant to identifying management performance measures in Agenda Paper 21A of this meeting. Therefore, in the staff's view application guidance including the same description of 'management' used in IFRS Practice Statement 1 would be sufficient for the purposes of applying management's view to the definition of management performance measures.

Approach B

36. Under this approach if management communicates a non-GAAP measure that otherwise meets the definition of a management performance measure when there is no externally imposed requirement to do so, then it must represent management's view of an aspect of performance. In other words, management exercises its view by publicly communicating a measures. Hence, if a measure is publicly communicated, and otherwise meets the definition, it is a management performance measure, with one exception—an entity may conclude that a non-GAAP measure does not reflect management's view of an aspect of performance, and is therefore not a management performance measure, if the entity publicly communicates the measure because of an externally imposed requirement.
37. This exception would still allow an entity to conclude that such a measure represents management's view and is therefore a management performance measure. The ability for management to exercise judgement over externally required measures recognises that, in some cases, such measures may reflect management's view and should not be automatically prevented from being management performance measures.
38. The staff think that the term 'externally imposed requirement' is understood and could be applied in this case without further guidance because similar terminology is already used paragraph 135(b)(ii) of IAS 1 *Presentation of Financial Statements*. This paragraph is carried forward in the Exposure Draft and requires an entity to provide qualitative information about when an entity is subject to 'externally imposed capital requirements.'
39. The main advantage of this approach is that it largely addresses the stakeholder concern that an entity could avoid the requirements for management performance measures by saying that a measure does not reflect management's view (see paragraph

- 12(a)). The increased verifiability would also make it easier for auditors or regulators to prevent poor practice.
40. Under this approach public communication of a measure by management, for example in its management commentary, demonstrates the measure reflects management’s view of an aspect of performance. This application of management’s view is consistent with paragraph 12 of IFRS Practice Statement 1 that says management should present commentary that is consistent with the following principles:
- (a) to provide management’s view of the entity’s performance, position and progress; and
 - (b) to supplement and complement information present in the financial statements.
41. The exception for measures resulting from externally imposed requirements has the advantage of addressing stakeholder concerns (see paragraphs 12(b) and 13 of this paper) by clarifying that industry measures or measures using local GAAP, could be excluded from the management performance measures requirements when they are required to be publicly communicated by law or regulation. However, in cases where there is no requirement to publicly communicate such measures, any common industry measures or local GAAP measures that are so communicated and that otherwise meet the definition, would be management performance measures.
42. Another advantage of this approach is that it further contributes to consistency between measures used in public communications outside the financial statements and the performance measures disclosed in the financial statements. Paragraph BC156 of the Basis for Conclusions explains that this was one of the objectives of including management performance measures in the financial statements.
43. A requirement to include all disclosed non-GAAP measures that otherwise meet the definition of management performance measures that are publicly communicated may result in more measures being included as management performance measures. This is because measures that are used for purposes other than communicating performance may be included. For example, based on the staff’s research of non-GAAP performance measures included in the press releases or annual reports of fieldwork participants, 16 participants included subtotals of income and expenses that were not identified by the participants as management performance measures. Under Approach B these measures would be included as management performance measures unless

they were publicly communicated because of an externally imposed requirement. Examples of measures that may not communicate management's view but would be included as management performance measures under this approach include measures used to explain remuneration policies, industry-based measures, local GAAP measures, or regulatory measures that are not required to be communicated publicly. Some users may welcome increased transparency over these measures. However, measures used for purposes other than communicating management's view of an aspect of performance were not intended to be captured by the definition of management performance measures.

44. Another disadvantage of this approach is that without additional disclosure it may be unclear for users why measures that otherwise appear to be management performance measures are not included in the management performance measures note. This is less of a disadvantage in Approach B than in Approach A because there are fewer measures that may differ between public communications and the financial statements. However, this may still be a challenge when different entities are subject to the same externally imposed requirements to communicate measures outside financial statements but only some of these entities include them within the financial statements.
45. Applying this approach increases the importance of the scope of public communications in the definition of management performance measures. Stakeholders raised concerns about the scope of management communications which are addressed in Agenda Paper 21A of this meeting.

Staff recommendation

46. In the staff's view both approaches would provide clarity, and therefore more consistent application, of 'management's view' to different types of measures that caused stakeholders concerns. However, the staff recommend Approach A because it is less prescriptive in the application of 'management's view'. There are circumstances when entities communicate measures for purposes other than expressing management's view of performance. Requiring such measures to be included as management performance measures, as may occur in Approach B, may not reflect management's view of performance. The staff think that these risks to the Board's intention that management performance measures should reflect

management’s view of an aspect of performance outweigh the risk of the possible loss of transparency and discipline, which might be mitigated by market discipline.

47. The staff considered whether the potential for entities to reach different conclusions on whether similar non-GAAP measures are management performance measures could be mitigated by additional disclosure. For example, the Board could require an entity to disclose when a non-GAAP measure that otherwise meets the definition of a management performance measure is not included as a management performance measure because it does not reflect management’s view of an aspect of performance.
48. However, the staff does not recommend such a disclosure requirement. In the staff’s view management performance measures are entity-specific and it is therefore expected that entities will have different management performance measures. Insight into management’s view is achieved by the disclosures over why a measure communicates management view. Requiring additional disclosures for all measures that meet only part of the definition of management performance measures could result in excessive disclosures.

Question for the Board

Q2 Does the Board agree with the staff recommendation to add application guidance clarifying management’s view of an aspect of performance is applied solely using management’s judgement?

Other comments

Measures based on accounting policies that differ from IFRS Standards

49. Stakeholders raised concerns about the possibility that an entity calculates management performance measures applying accounting policies that differ from the accounting policies that entity selected applying IFRS Standards (see paragraph 15).
50. Paragraph BC148 of the Basis for Conclusions explains that the Board considered stakeholder concerns about including management-defined performance measures in the financial statements. The Board considered stakeholders concerns that:

- (a) management-defined performance measures may be incomplete or biased and therefore including them in the financial statements may be misleading to users of financial statements;
- (b) management-defined performance measures may be given undue prominence or legitimacy by including them in the financial statements; and
- (c) some adjustments made in calculating management-defined performance measures may be difficult to audit—for example, adjustments made when an entity calculates its performance measures using accounting policies that do not comply with IFRS Standards.

51. Paragraph BC155 explains the benefits the Board considered in concluding restrictions should not apply to management performance measures and paragraphs BC159 to BC160 explain the requirements in place to prevent misleading information. Agenda Paper 21C for this meeting explains how faithful representation can be applied to management performance measures. Agenda Paper 21B for the March 2021 Board meeting addressed stakeholder concerns about the auditability of management performance measures.

Other suggested improvements

52. The staff acknowledge stakeholder comments that the label ‘management performance measure’ does not indicate that such measures include only subtotals of income and expenses (see paragraph 18(a)). However, in the staff’s view, making the label more specific will not necessarily improve its understandability and may not reflect possible future developments. The staff do not think that including ‘performance measures’ in the label is misleading because subtotals of income and expenses are performance measures. Though some stakeholders said they viewed performance measures as including more than subtotals of income and expenses, no stakeholders said that subtotals of income and expenses were not performance measures. The label ‘management performance measures’ is not commonly used outside of this project and is supported by a specific definition, so there should be no confusion over what is included.
53. The Board concluded in its May 2021 meeting not to expand the scope of management performance measures in this project. However, the Board acknowledged feedback that additional measures may provide useful information and

could be considered in future projects. A label that includes wider views of performance would be more resilient to potential future changes to the scope. The staff therefore recommend the Board retain the label ‘management performance measures’.

54. The staff agree with stakeholder comments that it would be useful to include a statement in the Basis for Conclusions that distinguishes management performance measures from measures defined or specified in IFRS Standards (see paragraph 18(b)). The Exposure Draft includes a definition of ‘management performance measures’, and that definition identifies which measures are within the scope of the disclosure requirements. However, any measure included in the disclosure will be defined by management and therefore not defined or specified by IFRS Standards.
55. The staff also think that explaining how the definition could be applied using an illustrative example would provide additional clarity, as suggested by a respondent (see paragraph 17). The staff will therefore plan to add such an illustrative example in drafting.

Question for the Board

Q3 Does the Board agree with the staff recommendations to retain the label ‘management performance measures’?