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## IFRS Taxonomy Consultative Group (ITCG) meeting

Date	5 July 2023
Project	<b>IFRS Accounting Taxonomy Update—Primary Financial Statements</b>
Topic	<b>Management performance measures</b>
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## Purpose of the session

### Project update

- **Provide a brief update** on the IFRS Accounting Taxonomy Update—Primary Financial Statements project (slides 4–5)

### Management performance measures (MPMs)

- **Provide an overview** on the disclosure requirements for MPMs (slides 7–12), including an illustration of how an entity might disclose information on MPMs (slides 14–15)
- **Provide an overview** of the suggested modelling approach for MPMs (slides 17–24)
- **Receive feedback** on the suggested modelling approach for MPMs (slide 26)

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## Project update



## Objective and key proposals of the Primary Financial Statements project



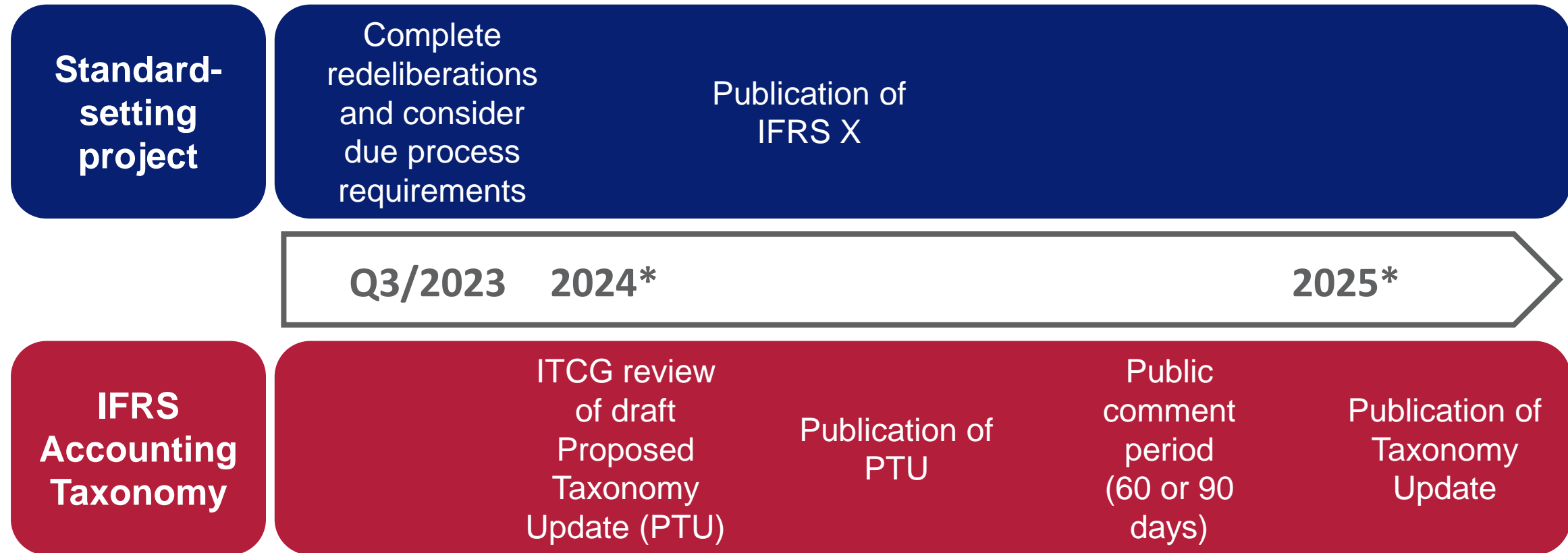
### Objective

- Improve communication in financial statements
- Focus on information included in the statement of profit or loss

### Key proposals



## Timeline—IFRS Accounting Taxonomy Update—Primary Financial Statements



\* Timeline subject to obtaining permission to ballot for IFRS X (to be refined once we have permission to ballot)

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## Disclosure requirements relating to MPMs



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## What is the issue and what is the IASB proposing?

- Many entities provide management-defined performance measures in investor communications (sometimes called ‘Non-GAAP’ or ‘Alternative Performance Measures’)—often outside financial statements
- Investors have said such measures can be useful because they provide insight into how management views the entity’s financial performance, how an entity is managed and the persistence of its financial performance
- However, investors have expressed concerns about the quality and transparency of disclosures provided about such measures and the discipline in the use of such measures



To improve transparency of reporting of some\* management-defined performance measures the IASB is requiring an entity to disclose its **management performance measure(s)** in a single note to the financial statements, accompanied by explanatory disclosures, including a reconciliation to the most directly comparable subtotal or total specified by IFRS Accounting Standards

\* Not all management-defined performance measures are **management performance measures** as defined in IFRS X (see slide 9)

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## Implications for digital reporting

- Since management-defined performance measures are currently often reported **outside of financial statements** they are **typically not tagged**
- Therefore, it is often not possible for users to extract and analyse such information digitally



Management performance measures would be included in financial statements, thus are expected to be tagged in digital reports under the new requirements



IFRS Accounting Taxonomy should provide specific elements to support tagging of MPM disclosures



## What are MPMs?

Subtotals of income and expenses **not specified** by IFRS Accounting Standards that:

- are used in public communications outside financial statements
- communicate management's view of an aspect of an entity's financial performance as a whole

Examples of MPMs include:



Example of measure that is **not** a subtotal of income and expense:








\* Examples of subtotals and income and expenses that would be specified by IFRS Accounting Standards include 'operating profit' and 'operating profit before depreciation amortisation and specified impairments'

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## What disclosures will be required for MPMs?

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Reconciliation		Reconciliation between MPM and the most directly comparable subtotal or total specified by IFRS Accounting Standards, including the income tax effect and effect on non-controlling interests
Location in statement of financial performance		Disclose for each reconciling item the amount(s) related to each line item in the statement of financial performance
Why an MPM communicates management's view		Includes an explanation of how the MPM is calculated and how the measure provides useful information about the entity's performance. Explanation should refer to individual reconciling items where necessary
Not necessarily comparable with other entities		A statement that 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
Changes in calculation		Explanation of and reasons for any changes in how the entity calculates its MPMs or which MPMs it provides

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## What might a reconciliation look like?

<b>Adjusted operating profit (MPM)</b>	<b>52,870</b>	<b>Tax</b>	<b>NCI</b>
Restructuring in Country X (incl. in employee benefits)	(5,400)	900	(1,020)
Revenue adjustment (incl. in revenue)	(6,200)	1,550	-
<b>Operating profit (IFRS-specified)</b>	<b>41,270</b>		



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

- operating profit, profit before financing and income tax;
- gross profit and subtotals similar to gross profit;
- profit before tax, profit from continuing operations, profit or loss;
- total other comprehensive income, comprehensive income;
- operating profit before depreciation, amortisation and specified impairments
- operating profit and income and expense from investments accounted for using the equity method



**Tax effect** can be calculated:

- using the statutory tax rate(s) applicable to the underlying transaction(s) in the relevant jurisdiction(s);
- on the basis of a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction(s) concerned; or
- by another method that achieves a more appropriate allocation in the circumstances.

An entity is required to disclose how it has determined the income tax effects. The disclosure is required for each reconciling item if more than one method is used to calculate the tax effect.

## MPMs are generally not IFRS measures or comparable between entities

- The IASB will not prescribe how entities should define their MPMs
- This means MPMs may **not be comparable** between entities, even when they have the **same label**

**Example—Identical entities X and Y both identify an MPM labelled ‘adjusted operating profit’, but use a different definition:**

MPM reconciliation Entity X			≠	MPM reconciliation Entity Y		
MPM	Adjusted operating profit	4,400		MPM	Adjusted operating profit	4,200
	Goodwill impairment	(200)		Restructuring expense	(900)	
	Restructuring expense	(900)		Operating profit	3,300	
	Operating profit	3,300				



Tagging should identify measures as MPMs (not IFRS measures) and should avoid implying that MPMs are comparable

\* With ‘IFRS measures’ we mean measures recognised and measured in accordance with IFRS Accounting Standards

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## Illustration of the disclosure requirements relating to MPMs



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## Illustration—Explanatory disclosures on MPMs

The Group uses ‘adjusted operating profit’ and ‘adjusted profit’ as management performance measures in its financial communications with users of financial statements. These measures provide management’s view of an aspect of the Group’s financial performance as whole. They are not specified by IFRS Accounting Standards and therefore may not be comparable to apparently similar measures used by other entities.

The Group believes that its management performance measures help users of financial statements to assess underlying trends in profitability including the effect of acquisitions on the profitability of the Group. The management performance measures have been calculated by adjusting for the effect of the following items which, in the view of the Group’s management, should be considered separately when assessing trends:

- (1) Revenue adjustment—the Group has acquired several entities in Country A which had recognised contract liabilities. IFRS 3 *Business Combinations* requires a contract liability of an acquired entity to be recognised at fair value on the acquisition date. Because the fair value of the contract liabilities is lower than the contract consideration received, the Group recognised less revenue when it provided its services than would have been recognised by the acquired entities had the acquisition not occurred. In the calculation of its management performance measures, the Group adjusts for the difference between the revenue recognised and the consideration received.
- (2) Unusual income and expenses—these are not expected to arise for several future annual reporting periods, unlike other items in the statements of financial performance.

The Group identified the following unusual income and expenses in 20X2:

- Court case X—Litigation expense arose from court case X in which the Group recognised an expense for damages incurred after the Group mislabelled one of its products. The Group has since taken measures to remedy its labelling procedures. The Group identified this litigation expense as an unusual expense in 20X2.
- Restructuring—The Group decided to move one of its factories from Country C to Country D because of uncertainty caused by proposed legal changes which would restrict the operation of foreign companies in Country C. Restructuring expenses were recognised, made up of redundancy expenses for factory staff of CU2,050, impairment losses on factory machinery of CU3,350 and losses on extinguishment of loans of CU600. The Group identified these expenses as unusual expenses in 20X2 because it does not expect to conduct such a significant restructuring for several future annual reporting periods, and such expenses are only expected to arise from significant restructuring.

The tax effect of the revenue adjustment is calculated based on the statutory tax rate applicable in Country A at the end of the reporting period, which is 15.5 % in 20X2. Litigation expense from court case X does not have a tax effect because these expenses are not tax-deductible or chargeable. The tax effect of restructuring in Country C is calculated based on a reasonable pro rata allocation of the current and deferred tax related to Country C in 20X2.

## Illustration—Reconciliation and additional required information\*

Entities might provide all information in a tabular format

Some entities might however provide some information in a tabular format and some information in a text format

We do not expect the format entities choose to have an impact on how information is tagged in digital reports

	20X2
<b>Adjusted operating profit</b>	<b>55,370</b>
Revenue adjustment	(6,200)
Litigation expense	(2,500)
Restructuring	(5,400)
<b>Operating profit</b>	<b>41,270</b>

	20X2
<b>Adjusted profit</b>	<b>40,075</b>
Revenue adjustment	(6,200)
Litigation expense	(2,500)
Restructuring	(6,000)
Income tax	1,861
<b>Profit</b>	<b>27,236</b>

20X2				
Line items in the P&L				
Tax	NCI	Revenue	Cost of goods sold	General and administrative expenses
961	-	(6,200)	-	-
-	-	-	-	(2,500)
810	(270)	-	(4,990)	(410)

20X2						
Line items in the P&L						
Tax	NCI	Revenue	Cost of goods sold	General and administrative expenses	Income and expenses from borrowings	Income tax expense
961	-	(6,200)	-	-	-	-
-	-	-	-	(2,500)	-	-
900	(300)	-	(4,990)	(410)	(600)	-
-	-	-	-	-	-	1,861

### \* Additional required information:

- tax effect and effect on non-controlling interests for each reconciling item
- line item(s) in the statement of financial performance to which the reconciling item relate(s)

\* There are no amounts attributable to non-controlling interests for the revenue adjustment because the revenue would have been incurred by the parent as it would have arisen from the operations of wholly owned subsidiaries. Also, there are no amounts attributable to non-controlling interests for litigation expense from court case X because the expenses arose at the parent entity level.

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Modelling approach for MPM  
reconciliation and additional  
required information (see  
slide 15)





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## Background – Past ITCG discussions

- At the [January 2020 ITCG meeting](#), we discussed the modelling options for the tagging of the MPM reconciliation\*.
- The staff **considered two options (dimensions and dummy line items)** and suggested using dummy line items as a modelling approach for MPM reconciliation.
- A few members thought that use of dummy line items may not be intuitive to filers and therefore, could result in the tagging errors. Some members agreed with dummy line items because that would require fewer extensions.
- Given the feedback received at the ITCG meeting, we are now **suggesting the use of dimensional modelling** for the MPM reconciliation.
- Within this MPM reconciliation table, we will also list all the line items of subtotals and totals in the statement of financial performance, specified by IFRS X.

\* Jan 2020 ITCG meeting paper- [AP1A: IFRS Taxonomy modelling](#)  
Jan 2020 ITCG meeting summary- [ITCG meeting summary January 2020 \(ifrs.org\)](#)

## Additional requirement

- After the Jan 2020 ITCG meeting, the IASB has tentatively decided to require an entity to disclose, for each reconciling item, the **location in the statement of financial performance**.
- Therefore, we **propose to add one dimension for location**, to the table for reconciliation of MPMs.
- At the **Jan 2020 ITCG meeting**, we discussed about the use of location axis\* in the Taxonomy. The ITCG members advised us to explore the use of line items instead of dimensions for location.
- We considered and **rejected** the following **two options**:

Option	Reason for rejection
Use of line items for possible combinations, eg 'Revenue adjustment included in revenue line item'	In the MPM proposals, location is required for each reconciling item and such items would mostly be entity specific. That's the reason we are proposing a dimension for reconciling items. Since reconciling items would mostly be entity specific (and therefore, extensions), creating the line-item permutations for location for reconciling items would not be possible within the base IFRS taxonomy.
Use of extensible enumerations	For the same reason as above, we think parallel extensible enumerations elements could not be used effectively here.
Use of metadata link	Discussed at <a href="#">previous ITCG meeting</a> and members were not supportive of the use of metadata link.

\* Use of location axis was considered with another proposal.

# Proposed modelling (1/2)

## Disclosure about management performance measures [text block]

The requirement is to disclose entity’s management performance measure(s) in a single note, accompanied by explanatory disclosures, including a reconciliation to the most directly comparable subtotal or total specified by IFRS Accounting Standards. Therefore, this text block element can be used to tag the whole note of management performance measure(s) – slides 14 and 15.

Axis	Members
Management Performance Members axis	We propose to create some members based on the examples in the IFRS X and the Illustrative Examples. Some members could be Adjusted profit, Adjusted operating profit, etc. Entities can create extension members under this axis for other MPMs.
Reconciling items axis	We propose to create some members under this axis on the basis of the examples in the Accounting Standard and the Illustrative Examples. Some examples could be Revenue adjustment, Restructuring expense adjustment, etc. Entities can create extension members under this axis for other reconciling items.
Location in statement of financial performance axis *	This axis will be used to disclose the line item in the statement of financial performance, for each reconciling item. E.g., if revenue adjustment is sitting under the line item ‘Revenue’, then entity can use ‘Revenue member’ under this axis. We propose to create members for common line items in the statement of financial performance.

Members under the MPM axis and Reconciling items axis will not be entirely comparable among the entities because MPMs and reconciling items could be measured differently by different entities.

\* Notes:

1. We discussed the proposal to allow the use of line items as members in [December 2022 ITCG meeting](#). We think that proposal could also have been effectively used here. Since the ITCG members were not supportive of the proposal of use of line items as members, we are now proposing to create members for common line items in the statement of financial performance. See appendix for the summary of the discussion on this topic.
2. There will be no structural link indicating equivalency between line items and the new members. A custom linkrole could potentially be used to convey such a link.

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## Proposed modelling (2/2)

### Line items

Management performance measure

Adjustment increasing (decreasing) MPM, decreasing (increasing) IFRS measure

Total or subtotal specified by IFRS Accounting Standards [abstract]

Operating profit (loss)

Profit (loss)

... \*

Tax expense (income) on MPM adjustment

Non-controlling interests on MPM adjustment

\* We propose to list here all the subtotals and totals in the statement of financial performance, specified by IFRS X.

# Illustrated tagging – IFRS Accounting Taxonomy

Reconciliation of management performance measures [table] *	
Management Performance Members [axis]	A1
Adjusted operating profit [member]	M1
Adjusted profit [member]	M2
Reconciling items [axis]	A2
Revenue adjustment [member]	M1
Litigation expense [member]	M2
Restructuring [member]	M3
Income tax [member]	M4
Location in statement of financial performance [axis]	A3
Revenue [member]	M1
Cost of goods sold [member]	M2
General and administrative expenses [member]	M3
Income and expenses from borrowings [member]	M4
Income tax expense [member]	M5

Reconciliation of management performance measures [line items]	
Management performance measure	L1
Adjustment increasing (decreasing) MPM, decreasing (increasing) IFRS measure	L2
Total or subtotal specified by IFRS Standards [abstract]	
Operating profit (loss)	L3
Profit (loss)	L4
Tax expense (income) on MPM adjustment	L5
Non-controlling interests on MPM adjustment	L6

\* Note: Some members will be extensions, and some will be available in the Taxonomy. Available members will be based on examples in IFRS X and the accompanying Illustrative examples.

# Illustrated tagging – Example 1

20X2		20X2				
		Line items in the P&L				
		Tax	NCI	Revenue	Cost of goods sold	General and administrative expenses
<b>Adjusted operating profit</b>	<b>55,370</b> [L1, A1:M1]					
Revenue adjustment	(6,200) [L2, A1:M1, A2:M1]	961 [L5, A1:M1, A2:M1]	-	(6,200) [L2, A1:M1, A2:M1, A3:M1]	-	-
Litigation expense	(2,500) [L2, A1:M1, A2:M2]	-	-	-	-	(2,500) [L2, A1:M1, A2:M2, A3:M3]
Restructuring	(5,400) [L2, A1:M1, A2:M3]	810 [L5, A1:M1, A2:M3]	(270) [L6, A1:M1, A2:M3]	-	(4,990) [L2, A1:M1, A2:M3, A3:M2]	(410) [L2, A1:M1, A2:M3, A3:M3]
<b>Operating profit</b>	<b>41,270</b> [L3, A1:M1]					

Line item	Management Performance Members [axis]	Reconciling items [axis]	Location in statement of financial performance [axis]	
Adjustment increasing (decreasing) MPM, decreasing (increasing) IFRS measure	Adjusted operating profit [member]	Revenue adjustment [member]		6200
Tax expense (income) on MPM adjustment	Adjusted operating profit [member]	Revenue adjustment [member]		961
Adjustment increasing (decreasing) MPM, decreasing (increasing) IFRS measure	Adjusted operating profit [member]	Revenue adjustment [member]	Revenue [member]	6200

	Management Performance Members axis	Adjusted operating profit [member]	Adjusted operating profit [member]	Adjusted operating profit [member]	Adjusted operating profit [member]
Management Performance Members axis		Adjusted operating profit [member]	Adjusted operating profit [member]	Adjusted operating profit [member]	Adjusted operating profit [member]
Reconciling items axis			Revenue adjustment member	Litigation expense member	Restructuring member
Management performance measure		55370			
Adjustment increasing (decreasing) MPM, decreasing (increasing) IFRS measure		**	6200	2500	5400
Operating profit		41270			

\* In this illustration, we have not tagged 0 values. However, some regulators may require the tagging of 0 values also.

\*\* Reporting of this total of adjustments is not required. Because of this, calculations may not work here.

# Illustrated tagging – Example 1

	20X2
<b>Operating profit</b>	<b>41,270</b> [L3, A1:M1]
Revenue adjustment	6,200 [L2, A1:M1, A2:M1]
Litigation expense	2,500 [L2, A1:M1, A2:M2]
Restructuring	5,400 [L2, A1:M1, A2:M3]
<b>Adjusted operating profit</b>	<b>55,370</b> [L1, A1:M1]

- Some entities may report the reconciliation starting with the IFRS measure and then reconciled to the MPM.
- Here is the same example, discussed in previous slide, with the order of reconciliation reversed. Because of this change in order, signs will change for the adjustment amounts in the paper based financial statements. But in digital report, there will be no change in sign.
- We think our proposed elements will work with this type of reporting also.

Management Performance Members axis	Adjusted operating profit [member]	Adjusted operating profit [member]	Adjusted operating profit [member]	Adjusted operating profit [member]
Reconciling items axis		Revenue adjustment member	Litigation expense member	Restructuring member
Operating profit	41270			
Adjustment increasing (decreasing) MPM, decreasing (increasing) IFRS measure	**	6200	2500	5400
Management performance measure	55370			

We have not illustrated the tagging of the explanatory disclosures on slide 14 because that will be tagged with the text block element proposed on slide 19.

# Proposed dimensional modelling – pros and cons

Pros	Cons / Risks
<p>1. Entities can create any number of reconciling items and MPMs under the corresponding axes.</p>	<p>1. Calculations would not work for the MPM reconciliation.</p>
<p>2. Smaller taxonomy because we don't need to create elements for all possible MPMs or reconciling items.</p>	<p>2. For location in the statement of financial performance, we have to create duplicate members without any structural link indicating equivalency between line items and members. We will try to mitigate this risk by giving appropriate information in the documentation labels. E.g., documentation label of the 'Revenue member' will include the reference to the line item 'Revenue'. Alternatively, we could use a custom linkrole or taxonomy meta model to convey such a link.</p>
<p>3. Extension members could still be analysed by the users because those will be linked to a meaningful axis.</p>	<p>3. We are proposing to create some example members for the MPM axis and reconciling items axis (see slide 19). The information tagged with those members would not be comparable among entities. But there is a risk that use of those member elements may give a false sense of comparability because the elements are defined in the Taxonomy. We will try to mitigate this risk by mentioning in the documentation labels that these elements are not meant to provide comparable information.</p>
	<p>4. Under our proposed modelling, an IFRS specified subtotal or total will have to be linked to the appropriate member under the MPM axis. Eg, 'Operating profit' subtotal is linked to 'Adjusted operating profit [member]' on slide 22. Consequently, it could not be cross-checked automatically with the amount of the 'Operating profit' line item on the statement of profit or loss even though these two amounts should be the same.</p>



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## Questions



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## Questions for ITCG members

### Question 1

- Do you have any comments on the suggested dimensional modelling approach for the MPM reconciliation and the additional required information?

### Question 2

- Would you suggest any alternative modelling approach we should consider?

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# Appendix



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## Feedback on ‘line items as members’ (December 2022 ITCG meeting) (Topic—disclosure of operating expenses by nature) (1/2)

- ITCG members **generally disagreed with the staff recommendation of using ‘line items as members’ as a mechanism** to tag the amounts of depreciation, amortisation and employee benefits included in each line item in the statement of profit or loss. Members cited a few reasons for disagreeing with the recommendation:
  - a different mechanism could be explored—where dimensions could be used for all properties of a fact and where there would be a mechanism on that dimension to distinguish whether it was a disaggregation or something else (such as, additional metadata).
  - a consistent modelling approach across jurisdictions (for similar proposals) should be used and line items as members was currently not used in other jurisdictions (for example, in the FASB Taxonomy).
- Some members also said that using line items as members would be a change to how line items and dimensions were currently used and how the two types of elements would generally be bifurcated.

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## Feedback on ‘line items as members’ (December 2022 ITCG meeting) (Topic—disclosure of operating expenses by nature) (2/2)

- Staff explained that the benefit of using line items as members would be that this would provide a structural link between the amounts presented in the statement of profit or loss and the amounts disclosed in the notes. Otherwise, users might not be able to understand the connection between disaggregated amounts of depreciation, amortisation and employee benefits and line items presented in the statement of profit or loss. For example, if the member used to tag the information was labelled in a different way compared to the line item presented in the statement of profit or loss a user might not be able to understand the connection.
- Some members said they would generally be able to understand the link between the information disclosed in the notes (depreciation, amortisation, and employee benefits) and the presented line item in the statement of profit or loss so long as an entity used labels that were similar to the labels used for the line items presented.

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