
IASB[®] meeting

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| Date | May 2023 |
| Project | Primary Financial Statements |
| Topic | Issues related to Management Performance Measures and IFRS 8 <i>Operating Segments</i> |
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Objective of this paper

1. This paper sets out staff analysis and recommendations for issues related to management performance measures in the Exposure Draft *General Presentation and Disclosures* (Exposure Draft) and consequential amendments to IFRS 8 *Operating Segments*. This paper discusses:
 - (a) whether individual segment measures would be management performance measures;
 - (b) whether to confirm the proposal in paragraph B83 of the Exposure Draft; and
 - (c) whether to provide further clarification on the interaction between reconciliations required by IFRS 8 and the Exposure Draft proposals for management performance measures.
2. Appendix A summarises other outstanding issues related to management performance measures for which the staff conclude no further action is required, including:
 - (a) subtotals included in the statement of profit or loss;

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- (b) subtotals (other than specified subtotals) disclosed in the notes and not presented in the statement of profit or loss; and
 - (c) public communications related to interim financial statements.
3. In Appendix B, we discuss a consequential amendment to paragraph 23(f) of IFRS 8, which refers to a requirement IAS 1 *Presentation of Financial Statements* to disclose the nature and amount of items of income or expense separately where they are material.

Summary of staff recommendations in this paper

4. We recommend the IASB:
- (a) clarify in the application guidance that management performance measures reflect management's view of the performance of the entity as a whole; and
 - (b) confirm the proposal in paragraph B83 of the Exposure Draft that, when one or more of an entity's management performance measures are the same as part of the operating segment information disclosed by the entity in applying IFRS 8, the entity may disclose information about those management performance measures in the note that it uses to disclose information about its operating segments provided the entity either:
 - (i) includes in that note all of the information required to be disclosed for management performance measures; or
 - (ii) provides a separate note that includes all of the information required for management performance measures.

Structure of the paper

5. This paper is structured as follows:
- (a) the relationship between management performance measures and the requirements of IFRS 8 (paragraphs 6–41);

- (b) feedback on management performance measures for which the staff conclude no further action is required (paragraph 42);
- (c) a consequential amendment to IFRS 8 (paragraph 43);
- (d) Appendix A—Summary of feedback on management performance measures for which the staff conclude no further action is required; and
- (e) Appendix B—Consequential amendment to IFRS 8 *Operating Segments*.

Relationship between management performance measures and the requirements of IFRS 8

6. This section addresses stakeholders' comments on how the proposals for management performance measures would interact with the disclosure requirements in IFRS 8. This section also discusses whether entities can meet the disclosure requirements proposed in the Exposure Draft, as they relate to management performance measures, by providing these disclosures in the same note as disclosures provided to meet IFRS 8 disclosure requirements.
7. This section includes:
 - (a) proposals in the Exposure Draft (paragraphs 8–9);
 - (b) feedback on the proposals in the Exposure Draft (paragraphs 10–12);
 - (c) summary of related tentative IASB decisions and discussions from its redeliberations to date (paragraphs 13–15); and
 - (d) staff analysis and recommendations (paragraphs 16–41).

Proposals in the Exposure Draft

8. Paragraph B83 of the Exposure Draft states that:

In some cases, one or more of an entity's management performance measures may be the same as part of the operating

segment information disclosed by the entity in applying IFRS 8. In such cases, the entity may disclose the required information about those management performance measures in the same note that it uses to disclose information about its operating segments provided the entity either:

- (a) includes in that note all of the information required by paragraph 106 for management performance measures; or
- (b) provides a separate note that includes all of the information required for management performance measures.

9. Paragraph B82 of the Exposure Draft states that:

All information required to be disclosed about management performance measures shall be included in a single note.

Feedback on the proposals in the Exposure Draft

10. Some respondents to the Exposure Draft said it was not clear whether individual segment measures could meet the definition of management performance measures. This was echoed by some targeted outreach participants, who said it was not clear whether a performance measure disclosed applying IFRS 8 or a measure relating to a specific business unit that is not a reporting segment would meet the definition of a management performance measure and, if so, how an entity would be required to reconcile the measure.
11. Only some respondents specifically commented on paragraphs B82, agreeing with disclosing management performance measures in a single note because it provides a single point of reference, which contributes to transparency. Many users who commented supported the proposal for a single note on management performance measures, because it would address one of the biggest practical challenges users

currently face—non-GAAP measures being included in multiple locations and documents.

12. A few respondents asked how the reconciliation required by paragraph 28 of IFRS 8 would interact with the reconciliation required for management performance measures, in particular when there is an overlap or duplication of information. A few of these respondents said that entities would need to disclose duplicate information if they chose not to present disclosures relating to management performance measures within the note presenting segment information.¹ Most of the respondents that were not clear on the relationship with IFRS 8 requested the IASB provide additional guidance to clarify the link between the two sets of requirements.

Summary of related tentative IASB decisions and discussions from its redeliberations to date

13. At its March 2022 meeting (see [Agenda Paper 21B](#)), the IASB tentatively decided to:
- (a) confirm the requirement for an entity to disclose information about management performance measures in a single note to the financial statements; and
 - (b) not add specific requirements relating to including the management performance measures disclosures in the financial statements by reference to another document.
14. This tentative decision confirms the importance of including all information about management performance measures in a single note to the financial statements. A question remains of the best way to achieve this when a measure disclosed in an entity's segment disclosures applying IFRS 8 is also a management performance measure.

¹ Paragraph 28 of IFRS 8 *Operating Segments* requires an entity to provide a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to the entity's profit or loss after those items.

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15. The IASB tentatively decided to require an entity to disclose in the notes, for each management performance measure²:
- (a) a description of the aspect of financial performance that, in management's view, is communicated by the management performance measure, including an explanation of:
 - (i) management's view of why the management performance measure provides useful information about the entity's financial performance; and
 - (ii) how the management performance measure is calculated;
 - (b) a reconciliation between the management performance measure and the most directly comparable subtotal or total included in paragraph 104 of the Exposure Draft;
 - (c) the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation required by (b); and
 - (d) how the entity determined the income tax effect required by (c).

Staff analysis and recommendations

16. This staff analysis is structured as follows:
- (a) whether individual segment measures would be management performance measures (paragraphs 17–24); and
 - (b) whether to confirm the proposal in paragraph B83 of the Exposure Draft (paragraphs 25–41).

² See [Agenda Paper 21A](#) of the January 2022 IASB meeting, [Agenda Paper 21A](#) of the May 2022 IASB meeting and [Agenda Paper 21D](#) of the March 2023 IASB meeting.

Whether individual segment measures would be management performance measures

17. We recommend that the IASB clarify in the application guidance that management performance measures reflect management's view of the performance of the entity as a whole.
18. We think that the IASB's reference in paragraph B83 of the Exposure Draft to circumstances in which 'one or more of an entity's management performance measures may be the same as part of the operating segment information disclosed by the entity in applying IFRS 8' was to situations when the total of operating segments' measure of profit or loss would be management performance measures. We do not think the expectation was that the amounts reported for each individual segment would typically meet the definition of management performance measures. This is because management performance measures communicate management's view of the performance of the entity as a whole, and segment measures typically do not.
19. For example, an entity may disclose adjusted operating profit as a segment measure of performance, and also use the same measure for the entity as a whole in public communications with investors. We think only adjusted operating profit for the entity as a whole could meet the definition of a management performance measure as that is the only measure that communicates an aspect of the performance of the entity (as a whole).
20. In addition, required and specified subtotals to which entities must reconcile management performance measures are calculated for the reporting entity as a whole. There would be unintended consequences if individual segment measures were considered management performance measures. For example, the reconciliation of individual segment measures to measures at the level of the entity as a whole would be subject to tax and NCI requirements for reconciling line items. Users may not find this information useful, and it may be burdensome for preparers to apply.

21. Entities with a single operating segment will usually provide an explanation in the operating segment note that, for the purposes of assessing performance and allocating resources, the chief operating decision maker reviews operating results in aggregate. In these situations, single segment measures relate to the entity as a whole and could also meet the definition of management performance measures.
22. There may be circumstances where entities have more than one reportable segment and a single segment measure of performance which communicates that aspect of performance for the entity as a whole. For example, a manufacturer that provides financing to customers may have a financing segment and report a measure of net interest income for that segment. As other segments have no amounts relating to net interest income, this measure would also relate to the entity as a whole. However, the measure in this example is similar to gross profit, which is a specified subtotal, and thus would not meet the definition of a management performance measure.
23. In conclusion, we recommend the IASB clarify in the application guidance that management performance measures reflect management's view of the performance of the entity as a whole.
24. As discussed, we expect that this means that few individual segment measures would meet definition of management performance measures.

Questions for the IASB

1. Does the IASB agree with the staff recommendation to clarify in the application guidance that management performance measures reflect management's view of the performance of the entity as a whole?

Whether to confirm the proposal in paragraph B83 of the Exposure Draft

25. This section considers whether to confirm the proposal that, when one or more of an entity's management performance measures are the same as part of the operating segment information disclosed by the entity in applying IFRS 8, the entity may disclose information about those management performance measures in the same note

it uses to disclose information about its operating segments (providing all information about management performance measures is in a single note). We think this proposal preserves the IASB's tentative decision that all management performance measures be disclosed in a single note, whilst allowing entities to disclose required information about their management performance measures in the segment measures note if this results in clear and understandable information for users, and therefore recommend IASB confirm it.

26. We discuss:
- (a) comparison of information required for segment measures and for management performance measures (paragraphs 27–30);
 - (b) analysis of feedback on duplication of information (paragraphs 31–37);
 - (c) labelling of information when provided in a single note and effect on digital reporting (paragraphs 38–39); and
 - (d) staff recommendation (paragraphs 40–41).

Comparison of information required for segment measures and for management performance measures

27. Paragraph 28 of IFRS 8 requires an entity to disclose the reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. Similarly, paragraph 106 of the Exposure Draft proposes to require entities to disclose a reconciliation between the management performance measure and the most directly comparable subtotal or total included in paragraph 104 of the Exposure Draft.
28. The purpose of segment information disclosures is to enable users of an entity's financial statements to evaluate the nature and financial effects of the business activities in which the entity engages and the economic environment in which it operates. The entity discloses the following general information in accordance with paragraph 22 of IFRS 8:

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- (a) factors used to identify the entity's reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated);
 - (b) the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8. This includes a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics; and
 - (c) types of products and services from which each reportable segment derives its revenues.
29. In contrast, the objective of the disclosures on management performance measures is to communicate management's view of an aspect of the entity's financial performance in a clear and understandable manner that does not mislead users. The management performance measures disclosures will help users understand the information provided by a management performance measure by requiring disclosure of a description of why the management performance measure communicates management's view of performance, including an explanation of how the management performance measure is calculated and how the measure provides useful information about the entity's performance.³
30. In some cases, one or more of an entity's management performance measures may be the same as part of the operating segment information disclosed by the entity in applying IFRS 8. Although the objectives of these disclosure requirements differ, paragraph B83 of the Exposure Draft proposes to allow entities to combine information about management performance measures and operating segments in the

³ See paragraphs 105–106 of the Exposure Draft and BC167 of the Basis for Conclusions on the Exposure Draft.

same note, provided that all information about management performance measures is provided in that note (see paragraph 8).

Analysis of feedback on duplication of information

31. A few respondents said that entities would need to disclose duplicate information if they chose not to present disclosures relating to management performance measures within the note presenting segment information (see paragraph 12).
32. There may be common adjusting items included in the reconciliations required for operating segments and that would be required for management performance measures that may result in duplication. However, the narrative information required to be disclosed for management performance measures and segment measures will be different, as they serve different purposes and thus have differing disclosure requirements.
33. To assess the likelihood and prevalence of duplication occurring, we analysed the extent to which segment measures and alternative performance measures (APMs) overlap for a sample of 90 companies.⁴

| Scenario ref# | How do APMs and segment measures of profit or loss align | Number of entities | % of total number of entities |
|---------------|---|--------------------|-------------------------------|
| 1 | One APM and one segment measure which are the same | 23 | 26% |
| 2 | Multiple APMs and multiple segment measures which are the same | 5 | 6% |
| 3 | Multiple APMs, at least one of which is the same as one of the segment measures | 22 | 24% |

⁴ This sample includes a sample of 85 entities from different jurisdictions and different industries to compare the measure of profit or loss for the reportable segments and alternative performance measures (APMS) in [Agenda Paper 21D](#) of the June 2019 IASB meeting. Our analysis on the sample in June 2019 occurred when the Exposure Draft was being developed.

| | | | |
|---|---|-----------|-----|
| 4 | None of the APMs are the same as the segment measure(s) | 21 | 23% |
| 5 | No APMs and/or segment information identified | 19 | 21% |
| | Total number of entities | 90 | |

34. This analysis demonstrates that there would be some overlap of management performance measures and segment measures and hence some duplication of reconciling items.
35. In some cases, providing the information in a combined segment note could reduce duplication (for example, if an entity only has one management performance measure that is the same as the segment measure and reconciles that management performance measure to the same subtotal as the segment measure). Our analysis also shows that providing all information in a combined reconciliation in a combined segment note could lead to duplication of information (for example, when an entity has more than one management performance measure one of which is not reconciled to the same subtotal than the segment measure).
36. In addition, reducing duplication by providing combined reconciliation can have a negative effect on understandability (see paragraph 38), in particular when an entity has some but not complete overlap between measures that are segment measures and management performance measures.
37. Although, based on our analysis, reducing duplication on its own may not provide sufficient basis to allow entities to provide information about management performance measures in the same note as segment disclosures, we think that it may be useful for users to analyse information about management performance measures and segment measures together—for example, when a management performance measure is the same as a segment measure in aggregate. Having information presented close to each other or in the same note could facilitate this analysis.

Labelling of information when provided in a single note and effect on digital reporting

38. Paragraph 113 of IAS 1 requires entities to consider understandability when presenting notes (this paragraph is carried over in paragraph 97 of the Exposure Draft). In order to meet this requirement, entities would consider whether a combined note would be understandable and, if providing a single note, entities would need to clearly identify which measures and disclosures relate to management performance measures and which relate to segment measures.
39. This will also facilitate digital reporting. Whilst, for digital reporting, location or order in which notes are presented is irrelevant, clear identification of information facilitates correct tagging which in turns helps users correctly identify information they are looking for.

Staff recommendation

40. In conclusion, we think that the IASB should allow entities to include disclosures about management performance measures with disclosures about segment measures if this will result in understandable and comparable information in accordance with paragraph 97 of the Exposure Draft.
41. Accordingly, we recommend the IASB confirm the proposal in paragraph B83 of the Exposure Draft that, when one or more of an entity's management performance measures are the same as part of the operating segment information disclosed by the entity in applying IFRS 8, the entity may disclose the required information about those management performance measures in the note that it uses to disclose information about its operating segments provided the entity either:
- (a) includes in that note all of the information required by paragraph 106 of the Exposure Draft for management performance measures; or
 - (b) provides a separate note that includes all of the information required for management performance measures.

Questions for the IASB

2. Does the IASB agree with the staff recommendation to confirm the proposal in paragraph B83 of the Exposure Draft?

Feedback on management performance measures for which the staff conclude no further action is required

42. Appendix A of this paper contains issues arising from feedback for which we conclude no further action is required because:
- (a) the feedback received does not introduce any new information that the IASB did not already consider;
 - (b) the proposals in the Exposure Draft or the requirements of other IFRS Accounting Standards provide sufficient information to resolve the issue; or
 - (c) the issue can be resolved by clarifying the wording in drafting IFRS X.

Questions for the IASB

3. Does the IASB have any comments on the staff's conclusion on the topics in Appendix A of this paper?

Consequential amendment to IFRS 8

43. Appendix B of this paper contains details of a consequential amendment to paragraph 23(f) of IFRS 8.

Questions for the IASB

4. Does the IASB have any comments on the consequential amendment to paragraph 23(f) of IFRS 8?

Appendix A—Summary of feedback on management performance measures for which the staff conclude no further action is required

B1. The following table outlines the feedback for which we conclude no further action is required:

| Issue | Feedback received | Why no further action is required |
|--|---|---|
| <p>Subtotals included in the statement of profit or loss</p> | <p>Some respondents to the Exposure Draft said that it was not clear when a subtotal included in the statement of profit or loss in addition to the required subtotals, would be a management performance measure and subject to the related disclosure requirements.</p> <p>A few stakeholders have said that some entities present subtotals that are made up of the sum of lines presented in the statement of profit or loss. These subtotals may be presented in accordance with generally accepted industry practices or recommendations made by a local accounting standard setter, regulator or industry body and are therefore well-established and understood within those industries or jurisdictions.</p> <p>These stakeholders queried the necessity of the management performance measures disclosures for these subtotals because it would duplicate information already provided in the statement of profit or loss and not result in useful information.</p> | <p>In September 2022 (see Agenda Paper 21E), the IASB considered and rejected an approach where subtotals presented in the statement of profit or loss would be excluded from the scope of management performance measures. The IASB also tentatively decided to introduce a rebuttable presumption in response to the feedback received on measures defined by an external party (see Agenda Paper 21B of the March 2023 IASB meeting). The feedback received from these stakeholders does not provide any new information that was not considered by the IASB when it made these tentative decisions.</p> <p>We intend to clarify in drafting of IFRS X that applying the IASB's current proposals, subtotals that are made up of the sum of line items presented in the statement of profit or loss would fall within the scope of management performance measures if they meet the definition of management performance measures, including that the entity judges that the rebuttable presumption does not apply (see Agenda Paper 21B of the March 2023 IASB meeting) and they do not fall within the</p> |

| Issue | Feedback received | Why no further action is required |
|--|---|---|
| | | scope of a specified subtotal ⁵ in paragraph 104 of the Exposure Draft (see Agenda Paper 21E of the September 2022 IASB meeting). |
| Subtotals (other than specified subtotals) disclosed in the notes and not presented in the statement of profit or loss | <p>In its September 2022 meeting (see Agenda Paper 21E), the IASB tentatively decided that if a management performance measure is reconciled to a specified subtotal, and that specified subtotal is not presented in the statement(s) of financial performance, an entity is required to reconcile that specified subtotal to a subtotal presented in the statement(s) of financial performance. An entity would not be required to disclose any other information relating to the specified subtotal.</p> <p>The IASB also asked the staff to explore a general reconciliation requirement for subtotals disclosed in the notes and not presented in the statement(s) of financial performance.</p> | <p>In its September 2021 meeting the IASB discussed aggregation and disaggregation in the notes (see Agenda Paper 21D). The IASB tentatively decided to require an entity to explain how a disclosed class of items is included in the line items in the primary financial statements.</p> <p>The staff think that this tentative decision would require an entity to make clear how a subtotal (other than a specified subtotal) disclosed in the notes relates to the line items presented in the primary financial statements. This requirement would not involve a quantitative analysis of the class into the amounts included in each line item, and therefore entities would not be required to give a reconciliation. However, a qualitative explanation of how the class is included in line items in the primary financial statements would be helpful without being unduly burdensome.</p> |
| Public communications related to interim financial statements | In its March 2023 meeting (see Agenda Paper 21C), the IASB discussed whether disclosures related to management performance measures in annual financial statements need be provided in interim financial statements, if the non-GAAP measure is not included in public communications accompanying the interim financial statements. | <p>At its September 2021 meeting (see Agenda Paper 21A), the IASB discussed that management performance measures and the financial statements must relate to the same reporting period:</p> <ul style="list-style-type: none"> to meet the objective of having consistency between performance measures reported inside and outside the financial statements as discussed in paragraph BC156 of the Basis for Conclusions on the Exposure Draft. |

⁵ Specified subtotals include subtotals similar to gross profit. A subtotal similar to gross profit represents the difference between a type of revenue and directly related expenses incurred in generating that revenue. Examples include net interest income, net fee and commission income, insurance service result, net financial result and net rental income (see paragraph B78 of the Exposure Draft).

| Issue | Feedback received | Why no further action is required |
|-------|-------------------|--|
| | | <ul style="list-style-type: none"> • for the management performance measures to complement the totals or subtotals specified by IFRS Accounting Standards. • to be consistent with the implication of the general requirements that only transactions that have occurred during the period are reported. For interim financial statements, this is implied by the requirement in paragraph 20(b) of IAS 34 to disclose statements of profit or loss and other comprehensive income for the current interim period and cumulatively for the current financial year to date. <p>We noted in this Agenda Paper that a performance measure that relates to interim financial statements but not the annual financial statements would only be included in the interim and not the annual financial statements. We think that the reverse would also apply—i.e. a performance measure that relates to annual financial statements but not the interim financial statements would only be included in the annual and not the interim financial statements.</p> |

Appendix B—Consequential amendment to IFRS 8 *Operating Segments*

B2. Paragraph 23 of IFRS 8 *Operating Segments* states that:

23. ... An entity shall also disclose the following for each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss:

...

(f) material items of income and expense disclosed in accordance with paragraph 97 of IAS 1 *Presentation of Financial Statements* (as revised in 2007);

...

B3. Paragraphs 97–98 of IAS 1 *Presentation of Financial Statements* state that:

97. When items of income or expense are material, an entity shall disclose their nature and amount separately.

98. Circumstances that would give rise to the separate disclosure of items of income and expense include:

(a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;

(b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) disposals of items of property, plant and equipment;

- (d) disposals of investments;
- (e) discontinued operations;
- (f) litigation settlements; and
- (g) other reversals of provisions.

B4. The Exposure Draft proposed to delete Paragraph 97 of IAS 1 and carry forward paragraph 98 without change as paragraph B15 of the Exposure Draft.

B5. In IFRS X, we intend to include guidance stating:

An entity shall disaggregate information whenever the resulting information is material.

B6. Therefore, we plan to replace the reference to paragraph 97 of IAS 1 in paragraph 23(f) of IFRS 8 by a reference to the requirement discussed in paragraph B5.