IASB Technical Update: Primary Financial Statements

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EAA Annual Congress
Paphos 30 May 2019
Better Communication in Financial Reporting

- Primary Financial Statements
- Disclosure Initiative
- Management Commentary
- IFRS Taxonomy
Better Communication in Financial Reporting

- Financial statements
- Primary Financial Statements
- Disclosure Initiative
- Information outside financial statements
- Management Commentary
- IFRS Taxonomy

Central theme of the Board’s work
Primary Financial Statements
Primary Financial Statements (PFS)—Overall project objective

Objective of the Primary Financial Statements project

Targeted improvements to the primary financial statements with a focus on the statement(s) of financial performance

Primary Financial Statements

- Statement(s) of financial performance
- Statement of financial position
- Statement of cash flows
- Statement of changes in equity
Agenda Consultation
Respondents identified the project as a priority and recommended focusing on the statement(s) of financial performance.

Board decision on project scope
Targeted improvements, mainly to the presentation of the statement(s) of financial performance.

Board discussions on topics in project scope

Publish Exposure Draft or Discussion Paper

PFS—Project timeline

2015
Dec 2016
late 2019
PFS—Stakeholder feedback and key tentative Board decisions

- **Users**: Statements of financial performance are not sufficiently comparable between different companies
- **Users**: Non-GAAP measures can provide useful information, but transparency needs to be improved
- **Preparers**: I need flexibility to tell my company’s story
- **Users**: There is insufficient disaggregation in financial statements

**Introduce defined subtotals** in the statement(s) of financial performance

**Introduce disclosure of Management Performance Measures**

**Improve disaggregation**
## PFS—Full scope of the project

**Statement(s) of financial performance**

- Introduce subtotals & categories facilitating comparisons between entities:
  - Operating, investing and financing categories
  - Presentation of share of profit of associates and JVs
- Introduce disclosure of management performance measures
- Improve communication of OCI

**Statement of cash flows**

- Eliminate classification options (interest/dividends)
- Introduce consistent starting point for the indirect method
- Prescribe classification of cash flows related to associates and JVs

**Improving disaggregation in financial statements by:**

- Introducing principles of disaggregation in financial statements
- Requiring disaggregation by nature or by function in the statement(s) of financial performance
- Requiring disclosure of unusual or infrequent items
- Requiring minimum line items in the primary financial statements
- Developing illustrative examples of primary financial statements for a small number of industries
PFS—Introduce three defined subtotals in the statement of profit or loss

1. Operating profit
   - Excludes share of profit from all associates/JVs
2. Operating profit and share of profit of integral associates/JVs
   - Excludes income/expenses from investments, which are defined as ‘income/expenses from assets that generate a return individually and largely independently of other resources held by the entity’
   - Excludes share of profit from non-integral associates and JVs
3. Profit before financing and income tax
   - Excludes:
     - Income/expenses arising from financing activities
     - Income from cash and cash equivalents
     - Unwinding of discount on liabilities that do not arise from financing activities
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>16,500</td>
</tr>
<tr>
<td>Changes in inventories of finished goods and work in progress</td>
<td>(1,000)</td>
</tr>
<tr>
<td>Raw material and consumables used</td>
<td>(6,000)</td>
</tr>
<tr>
<td>Employee benefits expense</td>
<td>(4,000)</td>
</tr>
<tr>
<td>Impairment of property, plant and equipment</td>
<td>(500)</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>(1,200)</td>
</tr>
<tr>
<td>Amortisation expense</td>
<td>(800)</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td><strong>3,000</strong></td>
</tr>
<tr>
<td>Share of profit of integral associates and JVs</td>
<td>500</td>
</tr>
<tr>
<td><strong>Operating profit and share of profit or loss of integral associates and JVs</strong></td>
<td><strong>3,500</strong></td>
</tr>
<tr>
<td>Changes in the fair value of financial assets</td>
<td>250</td>
</tr>
<tr>
<td>Dividend income</td>
<td>50</td>
</tr>
<tr>
<td>Share of profit of non-integral associates and JVs</td>
<td>100</td>
</tr>
<tr>
<td><strong>Profit before financing and income tax</strong></td>
<td><strong>3,900</strong></td>
</tr>
<tr>
<td>Interest income from cash and cash equivalents</td>
<td>100</td>
</tr>
<tr>
<td>Expenses from financing activities</td>
<td>(1000)</td>
</tr>
<tr>
<td>Unwinding of discount</td>
<td>(100)</td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td><strong>2,900</strong></td>
</tr>
</tbody>
</table>
PFS—Classification of income/expenses for financial entities

Starting point
(Tentative Board decisions for non-financials)

Present all 3 subtotals

All expenses from financing activities and income from cash & cash equivalents:
Financing

All income (expenses) from investments:
Investing

Tentative Board decisions for financial entities

If providing financing to customers is the main business activity, make accounting policy choice:
Allocate expenses from financing activities and income from cash & cash equivalents:
- Related to provision of financing to customers
- Not related to provision of financing to customers

OR

Present all expenses from financing activities and income from cash & cash equivalents in:

Operating
Financing

If the entity invests in the course of its main business activities:
Allocate income/expenses from investments:
- Investments in course of main business activities
- Investments not in course of main business activities

Operating
Investing

If no expenses from financing activities or income from cash & cash equivalents in financing category:

No ‘profit before financing & tax’ subtotal

Insurance finance expenses (income):

Operating
PFS—Management performance measures

I need flexibility to tell my company’s story

Preparers

Tentative Board decisions

Identify a measure (or measures) of profit that, in management’s view, communicates the financial performance of the entity.

This measure will often be a subtotal or total specified by IFRS Standards, but could be a management performance measure (MPM) that complements those subtotals or totals.

If entities identify MPMs, they will usually be disclosed in the notes, because few will fit the structure of the statement(s) of financial performance.

No specific constraints on the calculation of MPMs.
Non-GAAP measures can provide useful information, but transparency needs to be improved.

Users

- Disclose a reconciliation in the notes between the MPM and the most directly comparable subtotal/total specified by IFRS Standards (not as a column on the face)
- Disclose the effect on tax and non-controlling interests separately for each reconciling item
- Explain any differences between MPMs and segment measures
- Describe why the MPMs provide management’s view of performance and how they have been calculated
- Label MPMs in a clear and understandable way
- Explain any changes over time in calculation of MPMs

Tentative Board decisions
# PFS—Statement of cash flows

**Tentative Board decisions**

- Single starting point for the indirect reconciliation: **Operating profit**
- Removal of classification options for interest and dividends

<table>
<thead>
<tr>
<th>Cash flow item</th>
<th>IAS 7 classification</th>
<th>Tentative Board decision—non-financial entities</th>
<th>Tentative Board decision—financial entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest paid</td>
<td>Operating or financing</td>
<td>Financing</td>
<td>Operating or financing*</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>Operating or financing</td>
<td>Financing</td>
<td>Financing</td>
</tr>
<tr>
<td>Interest received</td>
<td>Operating or investing</td>
<td>Investing</td>
<td>Operating, investing or financing*</td>
</tr>
<tr>
<td>Dividends received</td>
<td>Operating or investing</td>
<td>Investing</td>
<td>Operating or investing* (always investing for equity-accounted investments)</td>
</tr>
</tbody>
</table>

* Depends on classification of related income/expenses in P&L
PFS—Disaggregation

There is insufficient disaggregation in financial statements

**Tentative Board decisions**

- Introduce improved principles, definitions and guidance on aggregation and disaggregation including specific principles to address large ‘other’ balances.
- Require entities to disclose information about unusual and infrequent items in the notes, attributed to line items in the statement(s) of financial performance.
- Require entities to present their primary analysis of expenses by nature or by function in the statement(s) of financial performance.
- Develop illustrative examples for the primary financial statements for a small number of industries.

**Board still to consider**

- Expanding the list of minimum required line items in the primary financial statements
- Developing principle-based guidance for identifying unusual or infrequent items
Resources available on our website

Supporting materials sorted by Standard

- IFRS Standards
- IFRIC Interpretations
- News and events

- New website
  www.ifrs.org

- Video

- Leaflet
  Supporting IFRS Standards

For example, for IFRS 9 Financial Instruments

- Webinars
- Articles

- Transition Resource Group
- Agenda decisions

IFRS® Standards

IFRS Standards Required 1 January 2019 (Blue Book)

The Annotated IFRS® Standards Required 2019 (Blue)
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