

STAFF PAPER

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IASB® Meeting

Project	Primary Financial Statements		
Paper topic	Clarifying requirements for management performance measures (MPMs)		
CONTACT(S)	Michelle Fisher	mfisher@ifrs.org	+44 (0)20 7246 6918

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Purpose of this paper

1. This Agenda Paper seeks the Board's views on clarifying the requirements for management performance measures (MPMs).

Summary of staff recommendations in this paper

2. The staff recommend that the Board should clarify its tentative decisions made in January 2018 as follows:
 - (a) all entities should specify their key financial measure (or measures) of profit or comprehensive income in the financial statements, which should include, as a minimum, key financial measures of profit or comprehensive income communicated in the entity's annual report;
 - (b) if any of these measures are not subtotals or totals required in IFRS Standards for the statement(s) of financial performance, an entity should identify such measures as MPMs; and
 - (c) if an MPM does not meet the requirements to be presented as a subtotal in the statement(s) of financial performance, then a separate reconciliation should be disclosed in the notes between the MPM and the most appropriate subtotal or total required in IFRS Standards for the statement(s) of financial performance.

Overview

3. This paper is structured as follows:
 - (a) background (paragraphs 4-5)
 - (b) which key performance measures should be captured by the MPM requirements? (paragraphs 6-10)
 - (c) what is a measure defined or specified by IFRS Standards? (paragraphs 11-12)
 - (d) summary of staff proposals and question for the Board (paragraph 13)
 - (e) appendix—our tentative disclosure requirements for MPMs

Background

4. At the January 2018 Board meeting the Board tentatively decided:¹
 - (a) all entities should specify their key performance measure (or measures) in the financial statements, which should include, as a minimum, key performance measures communicated in the annual report;
 - (b) if any of these measures are not specified or defined in IFRS Standards, an entity should identify such measures as MPMs;
 - (c) if the MPM does not meet the requirements to be presented as a subtotal in the statement(s) of financial performance, then a separate reconciliation should be disclosed in the notes between the MPM and the most appropriate measure specified or defined in IFRS Standards; and
 - (d) that there should be no specific constraints on MPMs provided in a separate reconciliation in the notes but that specific disclosures would be required (these disclosures are described in the appendix).

These tentative decisions were taken subject to the staff clarifying which measures are ‘key performance measures’ and also when a measure is ‘specified or defined in IFRS Standards’.

¹ See [January 2018 IASB Update](#).

5. In [January 2018 Agenda Paper 21A](#), the staff proposed that a ‘key performance measure’ should be ‘a summary financial measure of an entity’s financial performance based on information included in the statement(s) of financial performance’.² Some Board members observed that this appeared to be a wider set of measures than we had considered at previous meetings when discussing MPMs when we focussed on a management ‘operating’ performance measure. Others said it was not clear whether this description would include measures such as ratios and growth rates that are based on information in the statement(s) of financial performance. Other Board members queried whether we should also include other kinds of measures identified in the financial statements, including cash flow measures such as free cash flow and non-financial measures such as number of subscribers.

Which key performance measures should be captured by the MPM requirements?

6. During our research and outreach, including feedback on the 2015 Agenda Consultation, respondents told us that the Primary Financial Statements project should focus on the statement(s) of financial performance because:
- (a) performance reporting issues are the most controversial and critical in financial reporting; and
 - (b) most alternative performance measures used by entities in their communications are based on the statement(s) of financial performance.
7. Based on this feedback the staff think our primary focus should be key measures of an entity’s financial performance. Entities may report key non-financial measures or key financial measures of an entity’s financial position or cash flows. However, we think introducing MPM disclosure requirements for all of these other measures would result in excessive disclosures.
8. The staff think our intention in looking at MPMs is to include management’s view of financial performance in the financial statements where it would be subject to greater

² Note, in the Discussion Paper *Disclosure Initiative—Principles of Disclosure*, for ease of reference the term performance measure was used more widely to refer to summary financial measures of an entity’s financial position and cash flows, as well as of an entity’s financial performance. The revised staff proposals in this agenda paper mean that we would not need to define key performance measures for the purposes of the MPM requirements.

transparency and audit. Based on our research, management commonly reports key performance measures such as operating profit, adjusted operating profit and adjusted profit. These measures are financial measures of profit/comprehensive income, which are essentially subtotals of income and expenses that management would likely include in the statement(s) of financial performance if IFRS Standards had no constraints on subtotals in that statement(s).

9. Other measures calculated using, as inputs, amounts from the statement(s) of financial performance, such as ratios, growth rates and measures of single items of income and expense, such as adjusted revenue, might be identified as key performance measures by some entities. However, we suggest limiting the MPM requirements to management's key financial measures of profit or comprehensive income to avoid introducing excessive disclosure, and to focus on the most common performance measures reported by management. Furthermore, we think additional transparency is most important for key financial measures of profit/comprehensive income because they often involve a number of different adjustments (for example, the exclusion of several different expenses). Single line items, such as adjusted revenue, often only have a single adjustment. We also note that we developed our disclosure requirements for MPMs with profit figures in mind (see the appendix), for example the requirement to explain how an MPM differs from the total of the measures of profit or loss for the reportable segments.

10. Basic and diluted EPS are a special type of performance ratio required in the statement(s) of financial performance. Basic, diluted and adjusted EPS measures might be key performance measures of an entity. The staff does not think our requirements for MPMs should cover adjusted EPS measures because:
 - (a) as noted in paragraph 9 the disclosures for MPMs focus on measures of profit rather than ratios; and
 - (b) if an adjusted EPS measure is calculated consistently with an entity's MPM, there would be no need to explain all the adjustments made to adjusted EPS because this would be available from the MPM disclosures.

Nevertheless because users have expressed concerns about the transparency of disclosures about adjusted EPS we think we should review these requirements. That is the focus of Agenda Paper 21B for this meeting.

What is a measure defined or specified by IFRS Standards?

11. At the January 2018 Board meeting the staff introduced the term ‘defined or specified by IFRS Standards’ for the purposes of identifying MPMs (paragraph 4(b)) and for the separate reconciliation in paragraph 4(c). However, if we restrict MPMs to management’s key financial measures of profit or comprehensive income, we think we could be more specific and replace the term ‘specified or defined by IFRS Standards’ with ‘subtotal or total that is required in IFRS Standards for the statement(s) of financial performance’ (therefore we would not need to define the term ‘specified or defined by IFRS Standards’).

12. We do not think subtotals required in IFRS Standards include additional subtotals presented in accordance with paragraphs 85-85A of IAS 1 *Presentation of Financial Statements*. Paragraph 85A of IAS 1 states that these additional subtotals should not be displayed with more prominence than the subtotals and totals required in IFRS Standards (ie IAS 1 makes a distinction between additional subtotals and subtotals required in IFRS Standards). However, we could add drafting to make this absolutely clear.

Summary of staff proposals and question for the Board

13. Based on our analysis above and to respond to the need to clarify our requirements for MPMs the staff think that:
 - (a) our requirements for MPMs should only apply to management’s key financial measures of profit or comprehensive income (ie a subset of an entity’s key performance measures); and
 - (b) a measure defined or specified by IFRS Standards for the purposes of identifying and reconciling MPMs in accordance with paragraphs 4(b)-(c) must be a subtotal or total required in IFRS Standards for the statement(s) of financial performance.

Question 1

Does the Board agree that we should clarify the Board tentative decisions made in January 2018 as follows:

- all entities should specify their key financial measure (or measures) of profit or comprehensive income in the financial statements, which should include, as a minimum, key financial measures of profit or comprehensive income communicated in the entity's annual report (clarification of Board's tentative decision in paragraph 4(a));
- if any of these measures are not subtotals or totals required in IFRS Standards for the statement(s) of financial performance, an entity should identify such measures as MPMs (clarification of Board's tentative decision in paragraph 4(b)); and
- if an MPM does not meet the requirements to be presented as a subtotal in the statement(s) of financial performance, then a separate reconciliation should be disclosed in the notes between the MPM and the most appropriate subtotal or total required in IFRS Standards for the statement(s) of financial performance (clarification of Board's tentative decision in paragraph 4(c))

Appendix—our tentative disclosure requirements for MPMs

- A1. At the January 2018 Board meeting the Board tentatively decided that the following disclosures should be required for each management performance measure (including a management performance measure presented as a subtotal in the statement(s) of financial performance):
- (a) a description of why the management performance measure provides management’s view of performance, including an explanation of how the management performance measure has been calculated and why; and
 - (b) sufficient explanation, if there is a change in how the management performance measure is calculated during the year, to help users understand the reasons for and effect of the change.
- A2. The Board also tentatively decided that the reconciliation between the management performance measure and the most appropriate measure specified or defined in IFRS Standards should be provided separately from the operating segment information disclosed in accordance with IFRS 8 *Operating Segments*. However, entities would not be prohibited from also including management performance measures within the operating segment information. Furthermore, the following disclosures would be required:
- (a) an explanation of how the management performance measure differs from the total of the measures of profit or loss for the reportable segments; and
 - (b) if none of the management performance measures fits into the operating segment information, an explanation of why this is the case.