STAFF PAPER

January 2018

IASB® Meeting

Project	**Primary Financial Statements**
Paper topic	Requirements for management performance measures (MPMs)

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Purpose of this paper

1. This Agenda Paper seeks the Board's views on introducing management performance measures (MPMs) into the financial statements and the requirement to reconcile those MPMs with IFRS-defined measures. For the purposes of this paper:
   (a) an IFRS-defined measure is a measure defined or specified in IFRS Standards;
   (b) an MPM is one of management's key performance measures and is a summary financial measure of an entity's financial performance. Therefore an MPM would not be:
      (i) a non-financial measure—for example, market share, staff turnover, number of units sold per employee; or
      (ii) forward-looking information—for example, management's expectations about future sales.
2. This paper discusses MPMs that are based on information included in the statement(s) of financial performance. It does not address summary financial measures of an entity's financial position or cash flows.

Summary of staff recommendations in this paper

3. The staff recommend that:

(a) all entities should be required to specify their key performance measure (or measures) in the financial statements;

(b) if any of these measures are not IFRS-defined measures, an entity should identify such measures as MPMs;

(c) the key performance measures identified in the financial statements should include, as a minimum, the key performance measures that are communicated in the annual report;

(d) entities should present an MPM as a subtotal in the statement(s) of financial performance, if it fits in the Board's proposed structure for the statement(s) and satisfies the requirements in IAS 1 *Presentation of Financial Statements* for subtotals (tentative Board decision in December 2017);

(e) if an MPM does not fit in the statement(s) of financial performance, then a separate reconciliation should be disclosed in the notes between the MPM and the most appropriate IFRS-defined measure;

(f) there are no specific constraints on MPMs that are provided in a separate reconciliation;

(g) the following disclosures should be required for each MPM (including an MPM presented as a subtotal in the statement(s) of financial performance):

(i) a description of why the MPM provides management's view of performance, including an explanation of how the MPM subtotal has been calculated and why;

(ii) a five year historical summary showing, for each year, the calculation of the MPM;

(iii) if there is a change in how the MPM is calculated during the year, sufficient explanation to help users understand the reasons for and the financial effect of the change; and

(iv) an explanation of how the MPM differs from the total of the measures of profit or loss for the reportable segments disclosed in accordance with IFRS 8 *Operating Segments*.

(h) the reconciliation between the MPM and the most appropriate IFRS-defined measure should not be combined into the operating segment information; and

(i) IFRS Standards should specify that the MPM is not an IFRS-defined measure so that existing regulatory requirements for non-IFRS measures continue to apply to that measure.

Overview

4. This paper is structured as follows:

   (a) background (paragraphs 5-7)

   (b) in which circumstances should an MPM be required? (paragraphs 8-14)

   (c) where should the reconciliation between the MPM and an IFRS-defined measure be located? (paragraphs 15-22)

   (d) what constraints should there be if the MPM is provided in a separate reconciliation? (paragraphs 23-28)

   (e) what additional disclosures should we require for the MPM? (paragraphs 29-31)

   (f) how does the MPM relate to the total of the measures of segment profit or loss disclosed in the operating segment note? (paragraphs 32-34)

   (g) how would our requirements for the MPM interact with existing regulatory requirements for non-IFRS measures? (paragraphs 35-37)

   (h) appendix—illustrations of our proposed structure for the statement(s) of financial performance and the staff proposals for including an MPM in the financial statements

Background

5. At its December 2017 meeting, the Board tentatively decided entities should be required to identify an MPM and:

(a) present that measure as a subtotal in the statement(s) of financial performance, if it fits in the Board's proposed structure for the statement(s) and satisfies the requirements in IAS 1 *Presentation of Financial Statements* for subtotals (these constraints are described in paragraph 23); and

(b) otherwise provide the MPM in a separate reconciliation of that measure with a measure that is defined in IFRS Standards.

6. The Board noted that it would need to address the following issues at a future meeting:

(a) the circumstances in which an MPM would be required; and

(b) whether the separate reconciliation in paragraph 5(b) should be presented below the statement(s) of financial performance or disclosed in the notes.

These issues are addressed in paragraphs 8-22 of this paper.

7. The staff have identified the following as the main other outstanding issues to address about the MPM:[1]

(a) what, if any, constraints should there be on the MPM if it is provided in a separate reconciliation? (paragraphs 23-28)

(b) what should we do if an entity has two or more MPMs? (paragraph 10)

(c) what additional disclosures should we require for the MPM? (paragraphs 29-31)

(d) how would the MPM relate to the total of the measures of profit or loss for the reportable segments in the operating segment note (see paragraphs 23-27 of IFRS 8)? (paragraphs 32-34)

(e) how would our requirements for the MPM interact with existing regulatory requirements for non-IFRS measures communicated outside the financial statements, for example the *European Securities and Markets Authority (ESMA) Guidelines on Alternative Performance Measures*? (paragraphs 35-37)

[1] This is an updated version of the list provided in paragraph 15 of December 2017 Agenda Paper 21A.

The staff also intend to bring back proposals for the presentation or disclosure of management-defined adjusted earnings per share (EPS) in financial statements to a future meeting.

Circumstances when an MPM should be required

Background

8. At the June 2017 Board meeting, the staff recommended requiring an MPM to be provided in the financial statements if an entity reports that measure in its annual report. We observed that it would be difficult to have a wider requirement than this, for example requiring an MPM to be provided in the financial statements if it is reported in other public investor communication documents, because such a requirement would be difficult to enforce and audit. For example, it might require auditors to examine areas they would normally not consider, such as analyst presentations. We also noted that in some cases management might only communicate their key performance measures in private documents or private meetings. If the documents are not available for public consumption then auditors and regulators may not be able to access them.

Staff analysis

9. The staff think the objective of requiring an MPM to be provided in the financial statements is to encourage management to provide its key performance measures in the financial statements where they would be subject to greater transparency and audit than they might otherwise be outside the financial statements. The staff think that, regardless of how or where management reports performance measures outside the financial statements, we could add a requirement that all entities should identify their key performance measure (or measures) inside the financial statements as MPMs.

10. The staff observe that some entities may communicate more than one performance measure, for example both an operating profit and an adjusted operating profit. The staff think that these should all be identified as MPMs if they are considered key performance measures by management.

11. We think requiring an entity to provide its key performance measures in the financial statements would provide users with more transparent information about how management views and manages the performance of the business. We think it would also help to impose discipline on the measures that are reported as key performance measures outside the financial statements as explained in paragraphs 12-14.

Measures disclosed in the annual report

12. For the reasons given in paragraph 8, the staff think we should require that the key performance measures identified as MPMs should include, as a minimum, the key performance measures that are communicated in the annual report. However, we do not think we can have a wider requirement than this, unless we consider using the term 'annual reporting package' (see paragraph 13).

Measures disclosed in the annual reporting package

13. The Exposure Draft *Improvements to IFRS 8 Operating Segments* proposed amendments to IFRS 8 to require an explanation in the notes when segments identified by an entity differ between its financial statements and other parts of its annual reporting package. The Exposure Draft provided a definition of 'annual reporting package', which was wider than 'annual report', for example the annual reporting package might include press releases and preliminary announcements that are published at approximately the same time as the annual financial statements (see paragraphs 19A and 19B of the Exposure Draft). The Board has received feedback that the term 'annual reporting package' needs to be clarified or otherwise replaced with the term 'annual report'.[2] Depending on the Board's future redeliberations, the Board may wish to use the term 'annual reporting package' instead of 'annual report'—ie the Board could consider the wider requirement that the key performance measures identified as MPMs should include, as a minimum, the key performance measures that are communicated in the annual reporting package.

Measures disclosed outside the annual report

14. A requirement for MPMs to include, as a minimum, the key performance measures that are communicated in the annual report may still result in management

[2] See November 2017 Agenda Paper 27B, paragraphs 31-33.

communicating different performance measures outside the annual report. Nevertheless, the staff think this requirement may still help to reduce and add discipline to such a practice. This is because management would effectively be forced to justify to its investors (and regulators) its reasons for reporting different measures than those identified as key performance measures in the financial statements. Therefore the requirement proposed by the staff may also help to improve the way key performance measures are reported outside the annual report, but without the operational difficulties of mandating that an entity must disclose them as MPMs in the financial statements.

Question 1

Does the Board agree that:

- all entities should be required to specify their key performance measure (or measures) in the financial statements;
- if any of these measures are not IFRS-defined measures, an entity should identify such measures as MPMs; and
- the key performance measures identified in the financial statements should include, as a minimum, the key performance measures that are communicated in the annual report?

Location of the reconciliation between the MPM and an IFRS-defined measure

Background

15. At the December 2017 Board meeting the staff identified the following three alternatives for the MPM if it does not meet our requirements to be presented as a subtotal in the statement(s) of financial performance (these requirements are described in paragraph 23):

(a) MPM presented using a columnar approach in the statement(s) of financial performance; and

(b) MPM provided in a separate reconciliation of that measure with an IFRS-defined measure (referred to as 'separate reconciliation' in this paper) that either:

(i) accompanies the statement(s) of financial performance; or

(ii) is disclosed in the notes.

The staff analysed the advantages and disadvantages of each of the locations in December 2017 Agenda Paper 21A.

16. At the December 2017 Board meeting the staff proposed that if the MPM does not meet our requirements to be presented as a subtotal in the statement(s) of financial performance, it should be provided as part of a separate reconciliation directly following the statement(s) of financial performance (ie directly after the other comprehensive income section). The Board agreed that if the MPM does not meet our requirements to be presented as a subtotal in the statement(s) of financial performance, the MPM should be provided in a separate reconciliation (rather than using a columnar approach in the statement(s) of financial performance), but did not decide on the location of that reconciliation. However, several Board members expressed concerns about entities presenting management-defined numbers that are not subject to any constraints in the primary financial statements, even if this is in a separate reconciliation below the statement(s) of financial performance.

Staff analysis

Reconciliation provided as part of the primary financial statements

17. The staff think the following are advantages of providing the separate reconciliation as part of the primary financial statements, for example following the statement(s) of financial performance:

(a) many users and preparers have told us they would like management's key performance measures to be presented in the primary financial statements because they would be more prominent than if they were disclosed in the notes. This means that the measures would be more likely to be seen and considered by users because we have received feedback that users pay more attention to the primary financial statements than the notes.

(b) information in the primary financial statements is sometimes published earlier than some of the information in the notes—for example, in earnings announcements and press releases —and so has greater prominence. Information in the primary financial statements is also more likely to be included in information collected and provided by data aggregators than information in the notes.

(c) some may argue that there would be little difference between providing the separate reconciliation in the primary financial statements or in the notes if an entity uses structured electronic reporting. However, regulators may require more detailed tagging of information in the primary financial statements than the notes, at least in the early days of transition to electronic reporting. For example, to facilitate the implementation of structured electronic reporting, the ESMA will initially require detailed tagging only for the primary financial statements.

18. The staff think the following are disadvantages of providing the separate reconciliation as part of the primary financial statements:

(a) some Board members have concerns about entities presenting management-defined numbers in the primary financial statements. Whilst we could mitigate this by including additional constraints on what adjustments can be made in determining the MPM, this might then prevent management providing its true view of performance. Consequently this could prevent some key performance measures being identified as MPMs in the financial statements.

(b) including a separate reconciliation as part of the primary financial statements may be seen as a significant change and may meet resistance.

(c) it appears inconsistent with the Board's preliminary views of the role of the primary financial statements in the Discussion Paper *Disclosure Initiative—Principles of Disclosure,* which is to give a structured and comparable summary of an entity's recognised assets, liabilities, equity, income and expenses.[3] Whilst the MPM information might provide a structured and comparable summary for an individual entity over time, it would not be comparable between entities and the structure of the separate reconciliation may differ between entities depending on how the MPM is calculated.

[3] paragraph 3.22 of the Discussion Paper *Disclosure Initiative—Principles of Disclosure*.

Reconciliation disclosed in the notes

19. The staff think the following are advantages of disclosing the separate reconciliation in the notes:

    (a) currently entities are permitted to disclose additional information in the financial statements and so it is unlikely that this requirement would be seen as a significant change, nor meet significant resistance.

    (b) this may reduce concerns expressed by some Board members about 'elevating' management-defined measures because they would not be presented as prominently as IFRS-defined measures in the statement(s) of financial performance.

    (c) there would be more room for explanation and the reconciliation could be provided together with other disclosures about the MPM (additional disclosures are discussed in paragraphs 29-31). Furthermore, if an entity discloses more than one MPM, providing the separate reconciliations in the notes will prevent this extra information cluttering the primary financial statements.

    (d) including a separate reconciliation in the notes would be more consistent with the Board's preliminary view of the role of the notes rather than the role of the primary financial statements in the Discussion Paper *Disclosure Initiative—Principles of Disclosure*. The role of the notes includes supplementing the primary financial statements with other information that is necessary to meet the objective of financial statements.[4]

20. The staff think the following are disadvantages of disclosing the separate reconciliation in the notes:

    (a) preparers might feel they cannot present their view of performance in a suitably prominent manner.

    (b) requiring MPMs to be disclosed in the notes might be considered a limited change that does not result in significant improvements from existing requirements.

[4] paragraph 3.28(b) of the Discussion Paper *Disclosure Initiative—Principles of Disclosure*.

(c) MPMs would be less prominent and could be more difficult to find. However, use of electronic reporting and also search functions in digital reports may make it easier for users to locate information in the notes than has previously been the case.

Staff recommendation

21. The staff think if the MPM does not meet our 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 an IFRS-defined measure. Furthermore, the staff think management should choose the most appropriate IFRS-defined measure for the reconciliation. The staff think this would normally be the IFRS-defined measure that is closest to the MPM to minimise the number of reconciling items.

22. The staff think requiring the separate reconciliation to be provided in the notes, rather than as part of the primary financial statements, would reduce concerns expressed by Board members about having management-defined measures presented prominently in the primary financial statements. The staff do not think we should prescribe constraints on how the MPM can be calculated, otherwise it might prevent some key performance measures being provided in the financial statements (as discussed in paragraphs 26-28).

Question 2

Does the Board agree that if an MPM does not fit in the statement(s) of financial performance, then a separate reconciliation should be disclosed in the notes between the MPM and the most appropriate IFRS-defined measure?

Constraints on the MPM in a separate reconciliation

Background

23. At its December 2017 meeting, the Board decided that the MPM should be presented as a subtotal in the statement(s) of financial performance if it fits in the Board's proposed structure for the statement(s) and satisfies the requirements in IAS 1

Presentation of Financial Statements for subtotals. This means the following constraints would be required for an MPM subtotal:

(a) it would need to fit in the following proposed structure of the statement(s) of financial performance (based on the Board's recent discussions):

   (i) by function or by nature analysis of expenses;

   (ii) profit before financing, investing and tax subtotal;

   (iii) income/expenses from investments category;

   (iv) profit before financing and tax subtotal; and

   (v) finance income/expenses category.

   This proposed structure is illustrated in the appendix to this paper.

(b) and would need to:[5]

   (i) be comprised of line items made up of amounts recognised and measured in accordance with IFRS Standards;

   (ii) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable;

   (iii) be consistent from period to period; and

   (iv) not be displayed with more prominence than the subtotals and totals required in IFRS Standards, for example profit or loss and total other comprehensive income.

24. These are quite significant constraints. Consequently, the staff think in many cases entities will need to provide the MPM in a separate reconciliation. The Board has not yet decided whether there should be any constraints on the MPM if it is provided in a separate reconciliation. At the December 2017 Board meeting the staff proposed that we should limit the constraints on the MPM if it is placed in a separate reconciliation to cater for a wide range of MPMs reflecting management's view of performance.

25. At previous meetings several Board members have expressed concerns that any constraints could mean that the MPM does not represent management's true view of performance and might encourage entities to continue to present different performance measures outside the financial statements. Nevertheless, possible

[5] paragraph 85A of IAS 1 *Presentation of Financial Statements*.

constraints on the MPM discussed by the Board at previous meetings include (although these were discussed in the context of having the MPM as a subtotal in the statement(s) of financial performance):

(a) prohibiting exclusion of frequently occurring items from the MPM (ie only allowing entities to exclude infrequently occurring items);

(b) prohibiting exclusion of items when it contradicts the Board's view of operating performance, for example prohibiting exclusion of share-based payment expenses;

(c) prohibiting exclusion of items solely on the basis they are considered outside of management control; and

(d) introducing management-defined constraints that would be required to be applied consistently over time (ie only permitting the exclusion of items that meet management's consistently applied policy for excluding items from the MPM subtotal).

Staff analysis

26. The staff agree with those Board members that think that if we truly want management's view of performance then we should not develop significant constraints on the calculation of the MPM. Consequently, the staff suggest that we should not prescribe any specific constraints on the MPM but instead develop disclosures to ensure transparency and discipline of the MPM (see paragraphs 29-31).

27. Most of the constraints suggested by Board members in paragraph 25 were suggested for MPMs presented as subtotals in the statement(s) of financial performance. The staff think most Board members will have fewer concerns about the need for constraints on MPMs that are presented in a separate reconciliation, particularly if this reconciliation is disclosed in the notes as recommended by the staff (see paragraphs 21-22) and is supported by appropriate disclosures. This is because the MPM will be less prominent than the IFRS-defined measures in the statement(s) of financial performance and will also be clearly explained.

28. Whilst the staff do not recommend adding any specific constraints on MPMs disclosed in the notes, we observe that the existing requirements in IAS 1 will still

apply, for example the requirement that financial statements must present fairly the financial performance of an entity and the requirement of consistency of presentation over time.[6] Furthermore, the Principles of Disclosure project is looking at ways to ensure that any information disclosed in the notes is appropriately labelled and disclosed fairly.

Question 3
Does the Board agree that there should be no specific constraints on MPMs provided in a separate reconciliation provided that they are supported by suitable disclosures?

Additional disclosure requirements

Background

29. At previous Board meetings the staff have recommended requiring the following additional presentation and disclosure requirements to provide transparency over MPMs:

    (a) separate identification of infrequently occurring items from frequently occurring items in the reconciliation between the MPM and IFRS-defined measure;

    (b) a description of why the MPM provides management's view of performance, including an explanation of how the MPM has been calculated and why;

    (c) stating whether the entity uses the same MPM outside the financial statements; and

    (d) disclosing a historical summary showing the calculation of the MPM, for example, for a period of five years.

[6] paragraphs 15 and 45-46 of IAS 1 *Presentation of Financial Statements*.

Staff analysis

30. The staff continue to support the disclosure requirements in paragraphs 29(b) and (d). However, the staff have concerns that the disclosure in paragraph 29(c) might be difficult to enforce and audit for measures communicated outside the annual report for the reasons given in paragraph 8. In addition, as proposed at the December 2017 Board meeting, the staff think we should explore how best to present or disclose information about infrequently occurring items (paragraph 29(a)) separately at a future Board meeting after we have discussed the related feedback on the Discussion Paper *Disclosure Initiative—Principles of Disclosure*.

31. The staff think if management changes how it determines its MPM (or MPMs) during a given year, it should provide sufficient explanation to help users understand the reasons for doing so and the financial effect on the MPM. The staff think this might include, for example, an explanation for the change, a reconciliation between the old and new MPMs, and a historical summary of adjustments for both old and new MPMs (where practicable).

Question 4

Does the Board agree that the following disclosures should be required for each MPM:

- a description of why the MPM provides management's view of performance, including an explanation of how the MPM has been calculated and why;
- a five year historical summary showing, for each year, the calculation of the MPM; and
- if there is a change in how the MPM is calculated during the year, sufficient explanation to help users understand the reasons for and the financial effect of the change?

Interaction with IFRS 8 segment profit or loss

Background

32. IFRS 8 requires an entity to report a measure of profit or loss for each reportable segment.[7] Some Board members questioned how management's key performance measures (ie MPMs) might relate to the total of the measures of profit or loss for the reportable segments disclosed in the operating segment note. This is because, in addition to being used for resource allocation decisions, the measure of profit or loss for each reportable segment is used in management's assessment of the performance of the segment.[8] Similarly, MPMs are expected to be used in management's assessment of the performance of the entity.

Staff analysis

33. The staff do not think that a typical MPM and the total of the measures of profit or loss for the reportable segments would necessarily be the same. For example:

    (a) the MPM might include amounts that are not allocated to segments such as share of profit of associates, headquarter expenses etc;

    (b) the MPM might include some, but not all reportable segments; and/or

    (c) management might use different accounting policies for the measurement of profit or loss for reportable segments compared to measuring the MPM.

34. The staff recommend requiring the MPM to be disclosed in a separate reconciliation with the most appropriate IFRS-defined measure, rather than allowing it to be included as part of the operating segment information. This approach would ensure the reconciliation is easily identifiable by users and it would not be obscured by operating segment disclosures. It would also make it easier to tag for the purposes of electronic reporting, for example a single element (text block) containing all of the disclosures relating to MPMs that can be incorporated in the IFRS Taxonomy. Nevertheless, the staff think it would also be helpful to users if there is an explanation

[7] paragraph 23 of IFRS 8 *Operating Segments*

[8] paragraph 25 of IFRS 8 *Operating Segments*. IFRS 8 refers to the chief operating decision maker, rather than management. Nevertheless, the chief operating decision maker refers to a management function which is to allocate resources to and assess the performance of the operating segments of an entity.

about how the MPM relates to the total of the measures of profit or loss for the reportable segments if this is not clear from the other disclosures provided.

Question 5

Does the Board agree that:

- the reconciliation between the MPM and the most appropriate IFRS-defined measure should not be combined into the operating segment information; and
- the entity should explain how the MPM differs from the total of the measures of profit or loss for the reportable segments?

Interaction with existing regulatory requirements for non-IFRS measures

Background

35. At previous meetings some Board members expressed concerns that we should be careful not to 'elevate' the MPM to an IFRS-defined measure, which might mean the MPM would no longer be subject to requirements for non-GAAP/non-IFRS measures imposed by regulators. Some Board members also had the following concerns about the MPM being seen as an IFRS-defined measure:

    (a) the MPM is a measure defined by management and not the Board; and

    (b) the MPM would be determined differently between entities and, hence, would not be comparable between entities, albeit that it might be labelled consistently as an MPM across entities.

Staff analysis

36. The staff do not think a requirement to identify and disclose MPMs would automatically elevate the MPM to an IFRS-defined measure. The staff also observe that:

    (a) if the MPM is presented in the statement(s) of financial performance it must meet the existing requirements for subtotals in IAS 1. Consequently, we would not be requiring a subtotal that is not already permitted under our existing requirements.

(b) if the MPM is disclosed in a separate reconciliation in the notes to the most appropriate IFRS-defined measure, the staff do not think it would automatically be viewed as an IFRS-defined measure itself. For example, for the purposes of the *ESMA Guidelines on Alternative Performance Measures* the definition of an alternative performance measure (APM) excludes financial measures defined or specified in the applicable financial reporting framework.[9] The ESMA Questions and Answers document on those Guidelines clarifies that the measures disclosed in accordance with the applicable reporting framework but calculated on a different basis than the one defined or specified in the applicable financial reporting framework (such as a segment measure of profitability) fall within the definition of an APM in accordance with the APM Guidelines.[10] The staff think that MPMs would likely be subject to a similar treatment.

37. Nevertheless, in order to address concerns that MPMs might be seen as IFRS-defined measures, particularly if presented in the statement(s) of financial performance, the staff recommend we should specify in IFRS Standards that the MPM is a management-defined measure and not an IFRS-defined measure. This would aim to ensure that existing regulatory requirements for non-IFRS measures would continue to apply to key performance measures disclosed in regulated information, even if these measures are identified as MPMs in the financial statements. The staff observe that to avoid duplication of disclosures imposed by regulators and by IFRS Standards within annual reports an entity might use cross-references between the financial statements and other parts of the annual report, for example to information provided in a management commentary section. In the Principles of Disclosure project the Board is currently considering principles for when use of such cross-references is appropriate.

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[9] ESMA defines an APM for the purposes of the Guidelines as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework (paragraph 17 of the Guideline).

[10] Question 13 of the ESMA Questions and Answers on *ESMA Guidelines on Alternative Performance Measures*.

Question 6
Does the Board agree we should specify in IFRS Standards that the MPM is not an IFRS-defined measure so that existing regulatory requirements for non-IFRS measures would continue to apply to that measure?

Appendix—Illustrations of our proposed structure for the statement(s) of financial performance and the staff proposals for including an MPM in the financial statements

A1. This appendix shows the following illustrations:

(a) Illustration 1: An MPM provided as a subtotal in the statement(s) of financial performance because it fits into our proposed structure for that statement(s).

(b) Illustration 2: An MPM provided in a separate reconciliation in the notes (assuming we do not require any specific constraints on the MPM)

The MPM in illustration 2 would not fit into a single column statement(s) of financial performance as a subtotal because it includes net interest on net defined benefit asset.

A2. Note that these illustrations do not show the required comparative information for the preceding period nor the additional disclosures suggested in this paper (paragraphs 29-31).

Illustration 1—MPM provided as a subtotal in a single column statement(s) of financial performance

Statement(s) of financial performance (by function)

Revenue	10,000
Cost of goods sold	(4,000)
Gross profit	6,000
SG&A	(2,000)
Management performance measure (MPM)	4,000
Restructuring expenses for the closure of Factory A	(1,000)
Profit before investing, financing and income tax	3,000
Share of profit of non-integral associate	250
Other income from investments[11]	50
Profit before financing and income tax (or EBIT)	3,300
Interest income from cash and cash equivalents calculated using effective interest method	80
Other income from cash and cash equivalents and financing activities	20
Expenses from financing activities	(1,000)
Other finance income	50
Other finance expense	(350)
Net finance income (expense)	(1,200)
Profit before tax	2,100
Income tax expense	(600)
Profit or loss	**1,500**

[11] For example, this line item might include interest on loans receivable and fair value gains and losses on a passive investment in shares of another company. This information might be disaggregated in the notes or presented as separate line items.

Illustration 2—MPM provided in a separate reconciliation in the notes

Statement(s) of financial performance (by function)

Revenue	10,000
Cost of goods sold	(4,000)
Gross profit	6,000
SG&A	(3,000)
Profit before investing, financing and income tax	3,000
Share of profit of non-integral associate	250
Other investing income	50
Profit before financing and income tax (or EBIT)	3,300
Interest income from cash and cash equivalents calculated using effective interest method	80
Other income from cash and cash equivalents and financing activities	20
Expenses from financing activities	(1,000)
Other finance income	50
Other finance expense	(450)
Net finance income (expense)	(1,200)
Profit before tax	2,100
Income tax expense	(600)
Profit or loss	**1,500**

Extract from the notes

Management performance measure reconciliation

Profit before investing, financing and income tax	**3,000**
Restructuring expenses for the closure of Factory A	1,000
Net interest income on net defined benefit assets (part of other finance income)	50
Management performance measure (MPM)	4,050