

Better Communication in Financial Reporting

Part B: Primary Financial Statements

Agenda ref: WSS7B

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World
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Conference
2018

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Overview



Central theme of the Board's work

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Agenda

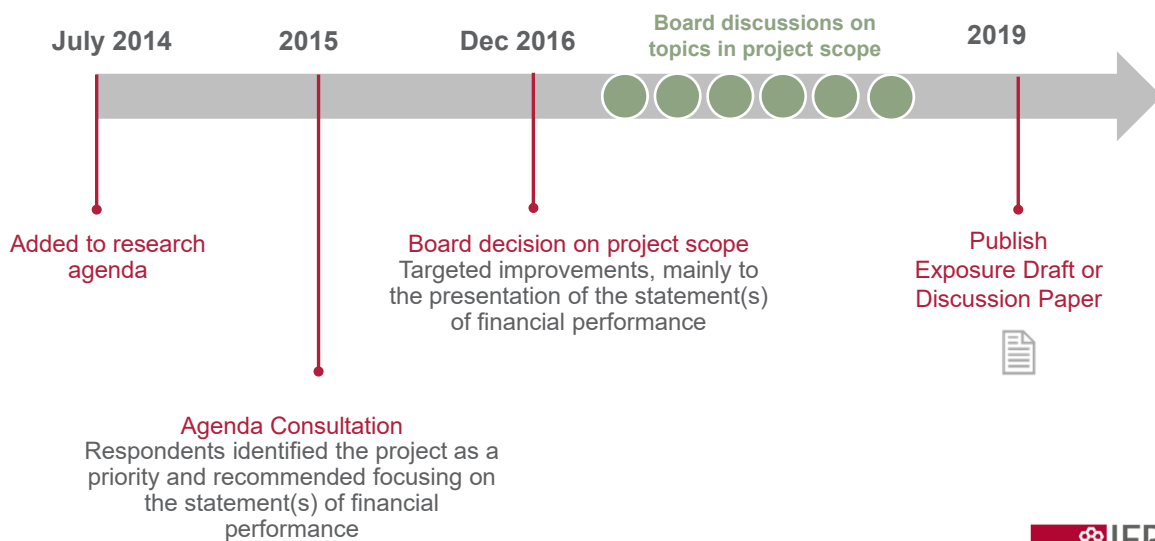
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Project background & overview	4–9
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Statement(s) of financial performance	10–19
Statement of cash flows	20–22
Improving disaggregation	23–24
Discussion on templates	25–28
Remaining topics for discussion	29–31



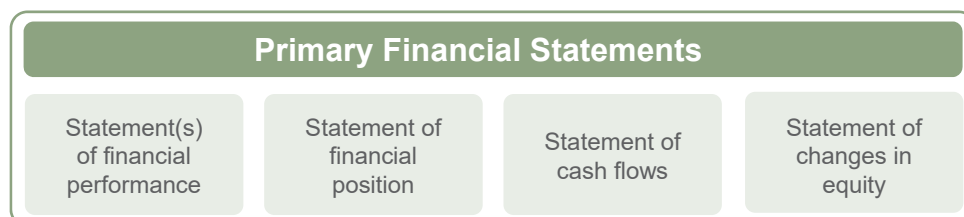
Project background & overview

Project timeline



Overall project objective

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Objective of the Primary Financial Statements project

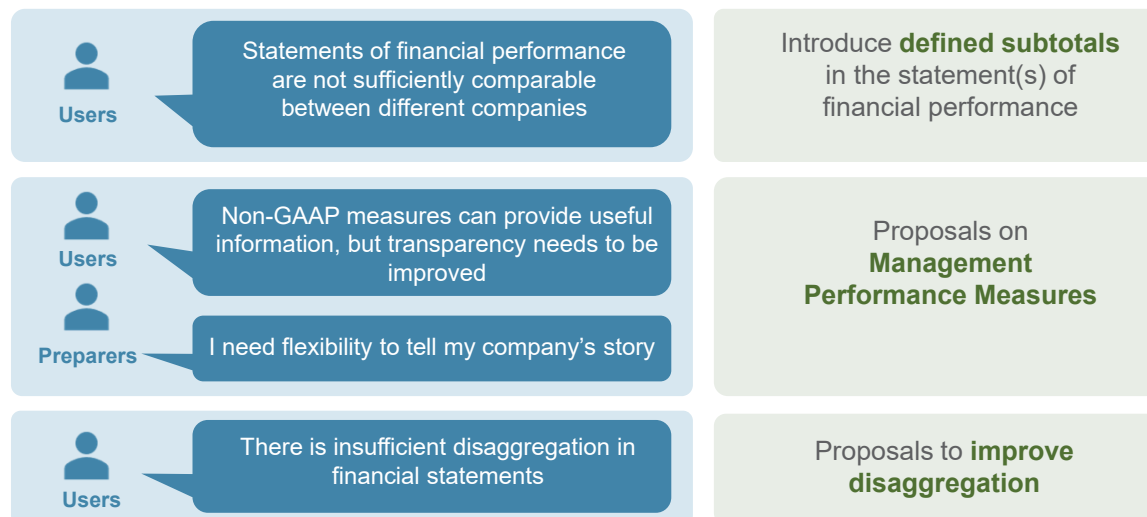
Targeted improvements to the primary financial statements with a focus on the statement(s) of financial performance



Survey 1
Financial reporting today
Questions to be given out during the breakout session

Stakeholder feedback and key project proposals

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Scope of the project

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Statement(s) of financial performance	Statement of cash flows
Subtotals & categories facilitating comparisons between entities: <ul style="list-style-type: none"> • Finance income/expense • Income/expenses from investments • Presentation of associates/JVs 	Eliminating classification options (interest/dividends)
Management performance measures	Consistent starting point for the indirect method
Better ways to communicate OCI	Cash flows related to associates/JVs
Improving disaggregation in financial statements	
Principles of disaggregation in financial statements	
Disaggregation by nature and by function in the statement(s) of financial performance	
Minimum line items in primary financial statements	
Templates for primary financial statements	
All tentative decisions on project apply to non-financial entities only	



Tentative Board decisions: statement(s) of financial performance

Three defined subtotals in the statement of profit or loss

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1 Profit from consolidated entities, before investing, financing and income tax (business profit)

Excludes share of profit from ALL joint ventures and associates

2 Profit before investing, financing and income tax

- 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 joint ventures and associates

3 Profit before financing and income tax

Excludes finance income and expenses which include:

- expenses on liabilities arising from financing activities (definition based on existing definition of financing activities for the statement of cash flows)
- unwinding of discount on other liabilities (see illustrative example)



**Defined
bottom-up**

Defined subtotals —illustration for general corporates

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Revenue	10,000
Cost of goods sold	-4,000
Gross profit	6,000
Selling, general and admin costs (SG&A)	-3,000
Business profit (from consolidated entities)	3,000
Share of profit of integral joint ventures and associates	500
Profit before investing, financing and income tax	3,500
Changes in the fair value of financial assets	250
Dividend income	50
Share of profit of non-integral joint ventures and associates	100
Profit before financing and income tax (EBIT)	3,900
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	-1000
Other finance income	50
Other finance expenses	-350
Profit before tax	2,700

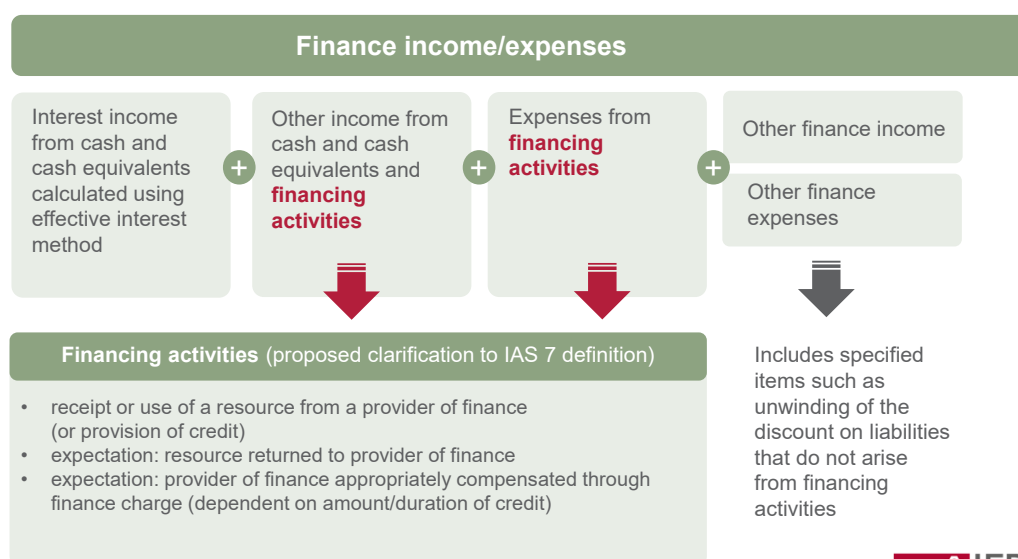
Income/
expenses from
investments

Finance income/
expenses

 IFRS

Subtotals – finance income/expenses

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 IFRS

Presentation of associates and JVs (1)

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Preparer A

My associates and JVs are a part of my main business, so I want to include my share of their results in my key performance measures.

The share of associates' and joint ventures' profit is after financing and after tax so I want to analyse them separately.



User X



User Y

In some industries I want to analyse the results from associates and JVs together with the entity's main business.

Presentation of associates and JVs (2)

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- The Board tentatively decided to require **separate presentation** of the share of profit or loss of:



Use definition of income/expenses from investments to determine classification:

Does the associate or joint venture generate a return individually and largely independently of other resources held by the entity?



Survey 2

Usefulness of subtotals

Questions to be given out during the breakout session

Management performance measures (1)

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Preparers

I need flexibility to tell my company's story

Tentative Board decisions

Entities are allowed to present 'Management performance measures' in the **notes**

MPMs **complement** subtotals or totals specified by IFRS Standards

No specific constraints on the calculation of MPMs

Management performance measures (2)

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Users

Non-GAAP measures can provide useful information, but transparency needs to be improved

Tentative Board decisions

Disclose a **reconciliation** in the **notes** between the MPM and the most directly comparable subtotal or total specified by IFRS Standards

Describe why the MPMs provide management's view of performance and **how** they have been **calculated**

Disclose the **effect of tax and non-controlling interests** separately for each reconciling item

Label MPMs in a **clear** and **understandable** way



Management performance measures (3) Example of reconciliation

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The management performance measure is presented in a **separate reconciliation in the notes**:

Management performance measure reconciliation (extract from notes)

Profit before investing, financing and income tax	3,500
Restructuring expenses for the closure of Factory A	1,000
Litigation settlement related to court case B	400
Management performance measure	4,900





Tentative Board decisions: statement of cash flows

Statement of cash flows

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- Eliminating **classification options** (interest/dividends):

Cash flows	Classification
Interest incurred on financing activities	Financing cash flows
Interest paid that is capitalised as part of the cost of an asset	Financing cash flows
Dividends paid	Financing cash flows
Dividends received	Investing cash flows
Interest received	Investing cash flows

- **Consistent starting point** for the **indirect method** for reporting operating cash flows: 'profit before investing, financing and income tax'
- **Separate presentation** of cash flows from integral and non-integral **associates and JVs** within investing cash flows

Statement of cash flows – illustration (indirect method)

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Profit before investing, financing and income tax	X
Adjustments for:	
Depreciation	X
Share of profit from integral associate A	(X)
[...]	
Income taxes paid	(X)
Net cash from operating activities	X
Acquisition of integral joint venture X	(X)
Acquisition of non-integral associate Y	(X)
Dividends received from integral associate A	X
Dividends received from non-integral associate B	X
Purchase of property, plant and equipment	(X)
[...]	
Net cash used in investing activities	(X)
[...]	
Net cash used in financing activities	(X)
Net increase in cash and cash equivalents	X

Consistent starting point for the indirect method for reporting operating cash flows

Separate presentation of cash flows from integral and non-integral associates and joint ventures within investing cash flows

Tentative Board decisions:
improving disaggregation





Users

There is insufficient disaggregation in financial statements

Principles of disaggregation in the financial statements

Consider expanding the list of required minimum line items in the primary financial statements

Proposals to improve disaggregation of expenses by nature / by function

Consider templates for the primary financial statements for a small number of industries



Discussion:
Your experience with financial
statement templates

Industry templates – introduction

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- The Board discussed the possibility of developing financial statement templates/examples for different industries, going beyond what is in IFRS Standards today
- IAS 1 *Presentation of Financial Statements* is accompanied by illustrative examples:
 - illustrations of primary financial statements
 - generic, non-specific to any industry
 - non-mandatory (accompanying but not part of the IFRS Standards)

Industry templates – advantages/disadvantages

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Could increase comparability between entities

The current illustrative examples accompanying IAS 1 do not cater for variations in industries as they are too generic.

The templates could provide the basis for the addition of new elements and line items in the IFRS Taxonomy



Could lead to false comparability (ie uniformity) between entities

Could stifle innovation and preclude entities from telling their own story

May discourage entities from presenting entity-specific items separately.

Other parties (eg large audit firms) already provide comprehensive illustrative examples—so developing templates may not be a good use of the Board's resources

Industry templates – questions for discussion

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- Do you use templates for primary financial statements in your jurisdiction for reporting under local GAAP? If so, please share your experience. What are their advantages and disadvantages?
- Do you think (illustrative) templates developed by the Board could help improve financial reporting in accordance with IFRS Standards? If so, how?



Remaining topics for Board
discussion

Remaining topics for Board discussion

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Disaggregation

Industry-specific illustrative examples/templates

Further guidance on disaggregation, incl. minimum line items

Financial performance

Guidance on the presentation and definition of EBITDA

Disclosure of information about unusual or infrequently occurring items

⚠ Application of proposals to financial entities

⚠ First due process document—Discussion Paper or Exposure Draft?

Application to financial entities

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- Financial entities have been **excluded so far** (banks, insurance companies, investment entities, some conglomerates)
- The Board started discussing the application of project proposals to financial entities in June 2018 and is expected to start making tentative decisions during September 2018 Board meeting.

⚠ This includes defining the **scope** of the **subtotals** in a way that ensures they are **only required when they result in useful information** (eg an EBIT subtotal is not useful for a bank)

Get involved

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