STAFF PAPER

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Project	**Management Commentary**
Paper topic	Management measures and indicators

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Purpose of this paper

1. This paper forms a part of the package of papers on reporting performance, position and progress in management commentary. This paper discusses possible supporting guidance that could be included in the revised IFRS Practice Statement 1 *Management Commentary* (Practice Statement) on:

   (a) identifying management measures and indicators that need to be addressed in management commentary; and

   (b) information that needs to be provided in management commentary about those measures and indicators.

2. The paper does not ask the Board for decisions on the possible supporting guidance but invites comments from the Board. The staff will consider those comments and will either address them in drafting the forthcoming exposure draft or present further analysis to the Board at a future meeting.

Structure of this paper

3. This paper is structured as follows:

   (a) summary of staff's research on management measures and indicators:

(i) the existing Practice Statement (paragraphs 4–7);

(ii) investors' and creditors' information needs and gaps in reporting practice (paragraphs 8–17);

(iii) overview of other standard-setters' requirements and guidance (paragraphs 18–24);

(iv) the proposals in Exposure Draft *General Presentation and Disclosures* (paragraphs 25–27);

(b) possible supporting guidance on:

(i) identifying management measures and indicators to be included in management commentary (paragraphs 30–36);

(ii) information that needs to be provided in management commentary about those measures and indicators (paragraphs 37–38);

(c) Appendix A—Extract from IFRS Practice Statement 1 *Management Commentary* on performance measures and indicators;

(d) Appendix B—Summary of feedback on measures and indicators received from the Management Commentary Consultative Group; and

(e) Appendix C—Extract from the Exposure Draft *General Presentation and Disclosures* on management performance measures.

***Note on terminology*—'management measures and indicators'**

The existing Practice Statement uses the term 'performance measures and indicators' and states that they may be either financial or non-financial. Financial measures and indicators may relate to a facet of financial performance and financial position.

The Exposure Draft *General Presentation and Disclosures*, requires entities to disclose management performance measures (MPMs), which are subtotals of income and expenses.

In this paper, the staff have used the term 'management measures and indicators' to refer both to those MPMs and to other measures and indicators of the entity's performance, position or progress.

Summary of staff's research on management measures and indicators

The existing Practice Statement

4. The existing Practice Statement identifies 'critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives'[1] as a separate element of management commentary. Said differently, 'critical performance measures and indicators' are ones that management uses to evaluate progress in executing management's strategy.

5. In discussing 'critical performance measures and indicators', the Practice Statement requires management to 'disclose performance measures and indicators (both financial and non-financial) that are used by management to assess progress against its stated objectives.' In addition to specifying that performance measures and indicators can be either financial or non-financial, the Practice Statement acknowledges that critical performance measures and indicators:

   (a) usually reflect the industry in which an entity operates; and

   (b) are those used by management to manage an entity because they are the most important to understanding that entity.

6. The Practice Statement also:

   (a) defines performance measures as 'quantified measurements that reflect the critical success factors of an entity'; and

[1] See paragraph 24(e) of the Practice Statement in Appendix A.

(b) states that 'indicators can be narrative evidence describing how the business is managed or quantified measures that provide indirect evidence of performance.'[2]

7. Finally, the Practice Statement contains high-level disclosure requirements for performance measures and indicators (see Appendix A) including:

   (a) explaining why the results from performance measures have changed over the period or how the indicators have changed;

   (b) explaining the relevance of the performance measure or indicator;

   (c) identifying and explaining any changes in the performance measures and indicators used;

   (d) defining and explaining financial performance measures that are not required by or defined by IFRS Standards; and

   (e) reconciling financial performance measures that are derived or drawn from the financial statements to the closest equivalent measures in the financial statements.

Investors' and creditors' information needs and gaps in reporting practice

8. To understand investors' and creditors' information needs specific to management measures, the staff have reviewed recent publications on the topic, including the CFA Institute's Survey Report *Usefulness of Key Performance Indicators and Other Information Reported Outside Financial Statements*[3] (June 2018), UK Financial Reporting Council (FRC)'s Financial Reporting Lab Report *Performance metrics –Principles and practice* (FRC Lab Report) (November 2018) and the Canadian Accounting Standards Board's (AcSB) *Framework for Reporting Performance Measures* (December 2018). The staff have also considered the outreach performed by the Board in developing the proposed requirements for MPMs included in the Exposure Draft *General Presentation*

[2] See paragraph 37 of the Practice Statement in Appendix A.

[3] The survey had 305 respondents and was primarily targeted at buy-side portfolio managers and research analysts, sell side analysts, credit analysts, and corporate financial analysts.

and Disclosures (Exposure Draft) because management measures and indicators include MPMs (see paragraphs 25–27).

9. The staff's research and outreach indicate that information about management measures and indicators is important to investors and creditors when they make investing, contributing, lending and other resource allocation decisions. For example, investors identified operational metrics (ie non-financial metrics)[4] as the mostly commonly used type of information in management commentary per the survey results included in the CFA Institute's Survey Report.

10. The staff's research and outreach clarified that investors and creditors consider that such management measures and indicators provide insight into:

    (a) how an entity creates value;

    (b) how an entity is managed;

    (c) whether an entity's financial performance and position is sustainable, particularly over the long term;

    (d) an entity's business model, strategy, risks and external environment; and

    (e) whether and how management is incentivised to execute the strategy.

11. The staff research and outreach also found that investors refer to critical management measures and indicators, in a manner broadly similar to the substance of the description in the existing Practice Statement, as those that:

    (a) explain how an entity creates value and generates cash flows; and

    (b) management monitors and uses to manage the entity including importantly those management uses to manage the execution of management's strategy.

12. To understand how an entity creates value and generate cash flows, investors have been increasingly requesting non-financial (or operating) management measures and indicators

[4] The term 'operational metrics' in the CFA Institute's survey refers to any measures reported outside the financial statements. These include non-GAAP measures such as EBITDA and free cash flow; comparable or organics sales growth data; gross margin disaggregation; market share etc.

as reflected by results of the CFA Institute's Survey Report (see paragraph 9). These non-financial management measures and indicators include ones that relate to environmental and social matters (often included in sustainability frameworks[5]) as well as to an entity's intangible assets. The members of the Management Commentary Consultative Group (MCCG) also highlighted that non-financial measures are important and give context to, and supplement, financial measures.

Note on terminology— 'non-financial information'

During consultations on the project, the staff have heard that the term 'non-financial' might not work well for information (including management measures and indicators) that is included in financial reporting and relates to factors or events that could have a financial impact on the entity in the future.

However, this term is used widely in narrative reporting frameworks as well as the existing Practice Statement. Some organisations, for example the Global Reporting Initiative, the Chartered Institute of Management Accountants (CIMA) and the CFA Institute, have used terms such as 'extra-financial', 'pre-financial' or 'operational'.

The staff will consider in drafting whether there is a more suitable term than 'non-financial'.

13. Accordingly, investors use management measures and indicators to inform their own assessments of the entity's prospects for future cash flows and of management's stewardship of the entity's economic resources. For example, the FRC Lab Report explains that for investors 'performance metrics are central to questions of value creation and ultimately to valuation'.

14. In spite of the importance of management measure and indicators, the staff's findings suggest that management measures and indicators provided in management commentary

[5] Examples of sustainability frameworks include recommendations and guidance issued by the Task Force on Climate-related Financial Disclosures, Climate Disclosure Project, Climate Disclosure Standards Board, Global Reporting Initiative and Sustainability Accounting Standards Board

as well as related disclosures do not always meet investors' and creditors' information needs. The staff's research and consultations with the Capital Markets Advisory Committee (CMAC) and the MCCG identified the following gaps in reporting practice in relation to management measures and indicators:

(a) lack of comparability with other entities due to a lack of transparency in labelling and describing measures or indicators and in explaining how they are calculated;

(b) lack of comparability for the same entity over time due to, for example:

   (i) changing the definitions or methods of calculation between periods;

   (ii) adding, removing, or replacing measures or indicators included in management commentary without explanation;

   (iii) not explaining adjustments made in calculating adjusted management measures and indicators (see terminology note below); and

   (iv) not providing comparative information;

(c) lack of neutrality, leading to a biased view of performance and position due to, for example:

   (i) a lack of balance by selecting only measures that depict favourable performance and position;

   (ii) replacing a previously disclosed measure with another more favourable measure purely to report a favourable outcome;

   (iii) not appropriately reflecting strategic choices of businesses (eg, mergers and acquisitions and restructuring); and

   (iv) reporting particular measures (generally adjusted management measures and indicators—see note below) with more prominence than others.

(d) limited relevance of operational (ie non-financial) measures reported;

(e) limited (and inadequate) disclosure of management measures and indicators for intangible assets (both recognised and unrecognised);

(f) unclear articulation of the links between financial and non-financial measures and indicators as well as a lack of transparency about the links to the financial statements; and

(g) lack of clarity about whether and how management measures or indicators affect management compensation.

Note on terminology—'adjusted management measures and indicators'

The existing Practice Statement refers to financial performance measures that 'are derived or drawn from the financial statements'[6] whereas the Exposure Draft refers to 'MPMs'.

In addition, guidance issued by securities regulators includes different terms to refer to measures derived from the financial statements. The European Securities and Markets Authority (ESMA) and the International Organization of Securities Commissions (IOSCO) refer to Alternative Performance Measures (APMs) whereas the (US) Securities Exchange Commission (SEC) and the Canadian Securities Administrator (CSA) refer to non-GAAP financial measures.

The staff have used the term 'adjusted management measures and indicators' in this paper and will consider in drafting whether there is a more suitable term.

15. The staff's research highlights that some investors think that the gaps in reporting practice might be addressed by applying aspects of existing securities regulators' requirements and guidance[7] for adjusted management measures and indicators as well as voluntary disclosure frameworks such as the International Integrated Reporting <IR> Framework.

[6] See paragraph 40 of the Practice Statement in Appendix A.

[7] Investors noted that the guidance for adjusted management measures and indicators has been largely updated by several securities regulators globally (ie. ESMA, IOSCO, SEC, CSA, and various other country or regional

16. Furthermore, both members of the MCCG and members of the CMAC highlighted information that the members felt would be most useful to investors. The members of the consultative groups recommended that management commentary should:

    (a) explain why the selected measures or indicators are appropriate or relevant;

    (b) explain how the entity is progressing against those measures or indicators;

    (c) reconcile any adjusted management measure or indicator to the closest equivalent measure in the related financial statements; and explain the relevance of any of the reconciling adjustments.

17. Appendix B provides further detail about feedback from members of the MCCG on investors' information needs about the management measures and indicators and explains how the staff considered the feedback in developing possible supporting guidance for this paper.

Overview of other standard-setters' requirements and guidance

18. The staff reviewed requirements and guidance issued by other standard-setters[8]. The review focused on:

    (a) measures or indicators to be included in management commentary or a similar report (paragraphs 19–23); and

    (b) information to be disclosed about those measures and indicators (paragraph 24).

Measures and indicators to be included in management commentary

19. The standard-setters' requirements and guidance reviewed by the staff generally refer to either measure or indicator (but very rarely both) and very few sets of requirements or

regulators) although such guidance will need to be added to (and adjusted) to apply to non-financial management measures and indicators.

[8] The staff's review covered responses from 24 national standard-setters to the staff's request for information about the requirements and commonly applied non-mandatory guidance on management commentary. Those requirements included the EU Non-financial Reporting Directive (2014/95/EU) and the related European Commission Guidelines on non-financial reporting, and the International Integrated Reporting <IR> Framework as those were applicable in some of the jurisdictions.

guidance provide a definition of measures or indicators. The types of measures or indicators discussed include:

(a) qualitative, quantitative or both; and

(b) financial, non-financial (operational) or both.

20. Firstly, many standard-setters' requirements and guidance focus only on quantitative measures or indicators, although they acknowledge that such measures or indicators are supported by narrative information, such as information about methods of calculation.

21. Secondly, many standard-setters' requirements and guidance require (or recommend) disclosure of both financial and non-financial measures and indicators. The requirements or guidance generally have different ways of defining financial information. Some of them define 'financial' measures and indicators as ones:

(a) defined and presented or disclosed in the related financial statements;

(b) presented and disclosed in the financial statements or any measure derived or drawn from the related financial statements (ie includes adjusted management measures or indicators); or

(c) expressed in monetary units.

22. A non-financial measure or indicator is generally one not classified as financial.

23. Most of the standard-setters' requirements or guidance require the application of materiality (as defined in the particular framework). Some standard-setters' requirements or guidance also suggest other characteristics to identify the scope of measures included in management commentary including:

(a) relevance to the circumstances of the entity and/or the industry in which the entity operates; and

(b) consistency with the measures or indicators management uses to manage that entity.

Information to be disclosed about those measures and indicators

24. In considering possible supporting guidance for management measures and indicators the staff have reviewed requirements and guidance published by other standard-setters as well as securities regulators[9] (see paragraph 15). The disclosure requirements and guidance in the requirements or guidance reviewed generally cover:

Applicability	Requirement
All measures and indicators	Specifying sources, assumptions and limitations of the measure or indicator
	Identifying the purpose and relevance of the measure or indicator (ie why it provides useful information to investors)
	Providing clear and understandable descriptions or labels so to not mislead users.
	Disclosing how the measure or indicator is calculated, including any definitions or method/basis of calculation.
	Explaining performance over the reporting period (and comparison of current year to comparatives). Comparatives are generally required for one year as a minimum but trend information and links to forecasts and targets are encouraged.
	Disclosing and explaining the addition, removal, replacement, or changing the method of calculation for a measure or indicator from period-to-period.
	Disclosing whether and how the measure or indicator is used to measure progress in achieving an entity's strategy and whether management is incentivised to achieve its strategy (ie link to management compensation)
	Explaining whether the measure or indicator was subject to some level of assurance
Adjusted management	Reconciling the measure or indicator to the closest equivalent measure or indicator in the financial statements including explaining any adjustments

[9] The staff's review included guidance and requirements published by ESMA, IOSCO, SEC and CSA.

measures or indicators only	Disclosing adjusted management measures or indicators with no more prominence than the financial statement equivalent.

The proposals in Exposure Draft General Presentation and Disclosures

25. The Exposure Draft proposes requirements for management performance measures (MPMs). In outreach conducted in developing that Exposure Draft, investors have said such performance measures can be useful because they provide insight into how management views the entity's financial performance; how an entity is managed; and the persistence or sustainability of its financial performance.

26. The Exposure Draft proposes that entities should disclose information about MPMs in a single note to the financial statements. It defines MPMs as: 'subtotals of income and expenses that:

    (a) are used in public communications outside financial statements;

    (b) complement totals or subtotals specified by IFRS Standards; and

    (c) communicate to users of financial statements management's view of an aspect of an entity's financial performance.'[10]

27. In response to investor concerns about the quality of disclosures for management-defined measures, the Exposure Draft recommends disclosing:

    (a) why the measure provides management's view of the company's performance including:

        (i) how the measure is calculated;

        (ii) how the measure provides useful information about the entity's performance;

    (b) how the measure can be reconciled to the most directly comparable subtotal set out in the Exposure Draft including the income tax effect and the effect on non-controlling interest for each line item in the reconciliation;

[10] See paragraph 103 of the Exposure Draft in Appendix C.

(c) requirements about changes in a measure (including changes to the calculation or additions and replacements) including disclosure of the effects of the change, an explanation and restatement of comparative information.

Possible supporting guidance

28. The overall objective of management commentary refers to information that enhances investors' and creditors' understanding of an entity's performance and position depicted in its financial statements and provides insight into factors that could affect the entity's prospects for future cash flows. Based on the staff's research and outreach summarised in paragraphs 8–13, management measures and indicators are one of the most important types of information to support that objective and to support investors' and creditors' assessments.

29. Accordingly, the staff have considered possible supporting guidance that could be included in the revised Practice Statement on:

(a) identifying management measures and indicators to be included in management commentary (see paragraphs 30–36); and

(b) information to be provided in management commentary about those measures and indicators (see paragraphs 37–38).

Identifying management measures and indicators to be included in management commentary

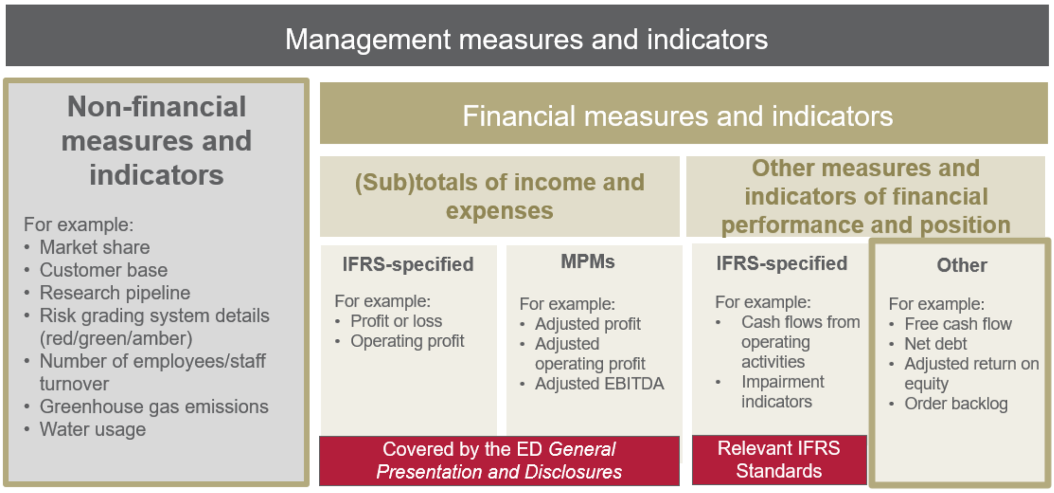
30. As described in paragraph 26, the Exposure Draft defines MPMs as subtotals of income and expenses. In other words, they relate to financial performance. In contrast, the scope of measures and indicators in management commentary is broader than those addressed by the Exposure Draft because:

(a) measures and indicators in management commentary may be both financial and non-financial;

(b) financial measures and indicators in management commentary may relate to the entity's financial performance and to its financial position and are not confined to subtotals of income and expenses; and

(c) indicators may often be qualitative (while measures are described as quantitative both by the Exposure Draft and by the Practice Statement).

31. The interaction between management measures and indicators in management commentary and those addressed by the Exposure Draft may be illustrated as follows:



32. The staff think that a broader scope of management measures and indicators is appropriate for management commentary because those measures and indicators are necessary for management to tell its story. As described in paragraph 11, management may explain how the entity creates value and generates cash flows and how management monitors and manages the entity.

33. Accordingly, the staff think that supporting guidance in the revised Practice Statement could explain that management measures and indicators included in management commentary may be quantitative or qualitative and may be financial or non-financial. The revised Practice Statement could also explain that management commentary may need to include industry-specific measures and indicators or those set out in sustainability frameworks.

34. To help management identify which management measures and indicators should be included in management commentary, the staff think that the revised Practice Statement could explain that management commentary should provide measures and indicators that relate to:

    (a) key matters identified in discussing the entity's business model, management's strategy, the entity's resources and relationships, its risks and external environment and progress in managing those matters; and

    (b) key facets of the entity's performance and position.

35. As previously discussed with the Board and summarised in Appendix A to Agenda Paper 15 *Cover Paper*, key matters and key facets of the entity's performance and position are those that:

    (a) relate to the entity's ability to create value and generate cash flows; and

    (b) are monitored and/or managed by management.

36. Furthermore, the staff think that the revised Practice Statement could also provide examples of management measures and indicators that may need to be included in management commentary based on the principles set out above. Those examples could include:

    (a) MPMs disclosed in the related financial statements;

    (b) management measures and indicators used in determining management's compensation;

    (c) management measures and indicators consistently requested by investors or creditors;

    (d) management measures and indicators commonly reported by other entities in the same industry.

Information to be provided about management measures and indicators

37. As described in paragraph 7, the existing Practice Statement sets out high-level disclosure requirements for performance measures and indicators. In developing possible supporting guidance for the revised Practice Statement, the staff considered:

(a) gaps identified in reporting practice (see paragraph 14)

(b) guidance in other standard-setters' requirements and guidance (see paragraph 18–24); and

(c) the proposals in the Board's Exposure Draft (see paragraphs 25–27).

38. The staff set out possible supporting guidance on information about management measures and indicators in the following table:

Supporting Guidance	
A * symbol indicates disclosure requirement exists in the existing Practice Statement **A ^ symbol indicates a similar disclosure requirement is proposed in the Exposure Draft**	
For all management measures and indicators in management commentary	
(i)	Provide comparative information for each management measure or indicator to show the emergence of trends and explain any significant developments in the current period or trends developing.*^
(ii)	Describe any changes from the previous period in the management measures or indicators provided—that is new measures or indicators included and previous measures or indicators omitted—and explain the reasons for those changes.*^
(iii)	Describe whether the reported management measure or indicator affects management compensation.*
(iv)	If forecasts or targets are disclosed (see Agenda Paper 15C *Performance and position*), identify the management measure or indicator to which they relate.

Management measures and indicators not defined and presented or disclosed in the related financial statements	
(v)	Explain the relevance of the management measure or indicator (why it is useful to investors and how it relates to the key matters discussed in management commentary and the key facets of the entity’s performance and position).*^
(vi)	Define the management measure or indicator*^ and use meaningful, clear and concise labels and descriptions for management measures and indicators. ^
(vii)	Explain the method of calculation of the management measure or indicator and the underlying assumptions and identify any known differences between the method used from other well-established methods, for example a method typically used by other entities in the same industry. *^
(viii)	Describe any changes from the previous period in the assumptions and the method of calculation used in producing the management measure or indicator, and explain the reasons for those changes.*^
(ix)	Reconcile any adjusted management measure or indicator (ie financial measure drawn or derived (in whole or in part) from the financial statements) to the most directly comparable financial measure in the financial statements prepared applying IFRS Standards, explaining the reconciling items*^ and do not present that adjusted management measure or indicator with greater prominence than its equivalent financial statement measure or indicator. ^
(x)	Specify for any industry-specific measure or indicator, or measure or indicator set out in another framework (for example, a sustainability framework): a. the name of the framework or other source; and

b. whether and how the definition used for the management measure or indicator differs from any standard definition in the guidance or deviates from the industry standard, framework or other source. If there is no standard definition, disclose that fact. *

Question 1 for the Board

Paragraphs 28–38 discuss possible supporting guidance that could be included in the revised Practice Statement on:

(a) identifying measurement measures and indicators to be included in management commentary; and

(b) providing information about those measures and indicators in management commentary.

Do you have any questions or comments on the discussion?

Appendix A—Extract from IFRS Practice Statement 1 *Management Commentary* on performance measures and indicators

Elements of management commentary

24 Although the particular focus of management commentary will depend on the facts and circumstances of the entity, management commentary should include information that is essential to an understanding of:

…

(e) the critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives.

Performance measures and indicators

37 Performance measures are quantified measurements that reflect the critical success factors of an entity. Indicators can be narrative evidence describing how the business is managed or quantified measures that provide indirect evidence of performance. Management should disclose performance measures and indicators (both financial and non-financial) that are used by management to assess progress against its stated objectives. Management should explain why the results from performance measures have changed over the period or how the indicators have changed. This disclosure can help users of the financial reports assess the extent to which goals and objectives are being achieved.

38 The performance measures and indicators that are most important to understanding an entity are those that management uses to manage that entity. The performance measures and indicators will usually reflect the industry in which the entity operates. Comparability is enhanced if the performance measures and indicators are accepted and used widely, either within an industry or more generally. Management should explain why the performance measures and indicators used are relevant.

39 Consistent reporting of performance measures and indicators increases the comparability of management commentary over time. However, management should consider whether

the performance measures and indicators used in the previous period continue to be relevant. As strategies and objectives change, management might decide that the performance measures and indicators presented in the previous period's management commentary are no longer relevant. When management changes the performance measures and indicators used, the changes should be identified and explained.

40 If information from the financial statements has been adjusted for inclusion in management commentary, that fact should be disclosed. If financial performance measures that are not required or defined by IFRSs are included within management commentary, those measures should be defined and explained, including an explanation of the relevance of the measure to users. When financial performance measures are derived or drawn from the financial statements, those measures should be reconciled to measures presented in the financial statements that have been prepared in accordance with IFRSs.

Appendix B—Summary of feedback on measures and indicators received from the Management Commentary Consultative Group (MCCG)

In January 2019, the MCCG discussed the staff's initial ideas for the possible guidance on performance, position and progress. The staff's proposed approach included guidance on:

(a) adjusted performance measures and ratios;

(b) additional operating measures related to investing and financing strategies; and

(c) specific performance analysis methods such as bridges, scenario analysis and sensitivity analysis.

In addition, in December 2019, the MCCG discussed the staff recommendations for performance, position and progress including guidance of measures and indicators as part of the overview of the project. A disclosure objective was added to the staff's recommended guidance for performance, position and progress but otherwise there were only editorial changes to the proposals.

The following table summarises the feedback received from members of the MCCG on the staff's proposed guidance and explains how the feedback has been considered in the staff's revised proposals for guidance on measures and indicators.

Feedback	**Staff's response**
The Practice Statement should not be overly prescriptive on how to provide an overview of performance in management commentary.	The staff agree that the overview should not be prescriptive. Please refer to Agenda Paper 15C *Performance and position* where the concept of an overview is addressed.
The Practice Statement should include more guidance on other types of measures (referred to as non-financial measures) than what was proposed	The staff are proposing guidance on both financial and non-financial measures to be included in management commentary.

The Practice Statement should require management to report the types of performance analysis they use internally eg bridge analysis[11], scenario analysis and sensitivity analysis.	The staff have explained that such performance analysis may be used as part of the explanation of key matters that could affect the entity's performance in the future. Please refer to Agenda Paper 15C.
The Practice Statement should require reconciliations of metrics used for management compensation to the closest measure in the financial statements	The staff agree that users need information to understand how the metrics used as a basis for management compensation relate to those reported in the financial statements, and have suggested supporting guidance which addresses whether the reported management measure or indicator affects management compensation.

[11] Bridge analysis (sometimes referred to as waterfall charts) compares performance for the reporting period with the previous period and explains the nature of variances.

Appendix C—Extract from Exposure Draft *General Presentation and Disclosures*

Management performance measures

103 Management performance measures are subtotals of income and expenses that:

(a) are used in public communications outside financial statements;

(b) complement totals or subtotals specified by IFRS Standards; and

(c) communicate to users of financial statements management's view of an aspect of an entity's financial performance.

104 Subtotals specified by IFRS Standards that are not management performance measures include:

(a) a total or subtotal required by paragraphs 60 and 73;

(b) gross profit or loss (revenue less cost of sales) and similar subtotals (see paragraph B78);

(c) operating profit or loss before depreciation and amortisation;

(d) profit or loss from continuing operations; and

(e) profit or loss before income tax.

105 Management performance measures shall:

(a) faithfully represent aspects of the financial performance of the entity to users of financial statements; and

(b) be described in a clear and understandable manner that does not mislead users.

106 An entity shall disclose information about any management performance measures in a single note to the financial statements. That note shall include a statement that the management performance measures provide management's view of an aspect of the

entity's financial performance and are not necessarily comparable with measures sharing similar descriptions provided by other entities. In addition, for each management performance measure an entity shall disclose in the notes (see paragraphs B82–B85):

(a) a description of why the management performance measure communicates management's view of performance, including an explanation of:

(i) how the management performance measure is calculated; and

(ii) how the measure provides useful information about the entity's performance;

(b) a reconciliation between the management performance measure and the most directly comparable subtotal or total included in paragraph 104;

(c) the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation required by paragraph 106(b); and

(d) how the entity determined the income tax effect required by paragraph 106(c).

107 An entity shall determine the income tax effect required by paragraph 106(c) on the basis of a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction(s) concerned or by another method that achieves a more appropriate allocation in the circumstances.

108 If an entity changes the calculation of its management performance measures, introduces a new management performance measure or removes a previously disclosed management performance measure from its financial statements, it shall:

(a) disclose sufficient explanation for users of financial statements to understand the change, addition or removal and its effects;

(b) disclose the reasons for the change, addition or removal; and

(c) restate its comparative information, including in the required note disclosures, to reflect the change, addition or removal.

109 A subtotal included in the statement(s) of financial performance applying paragraph 42 may be a management performance measure (see paragraph B81).

110 An entity shall not use columns to present management performance measures in the statement(s) of financial performance.