IFRS

STAFF PAPER

October 2021

IASB® meeting

Project	**Primary Financial Statements**
Paper topic	Operating profit or loss before depreciation and amortisation

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Objective

1. This paper sets out the staff analysis and recommendations on:

   (a) whether the Board should specify an operating profit or loss before depreciation and amortisation subtotal that excludes impairments, how such a subtotal could be labelled, and whether such a subtotal should be an additional specified subtotal or replace the specified subtotal proposed in the Exposure Draft *General Presentation and Disclosures*;

   (b) whether the Board should prohibit EBITDA as a label for an operating profit or loss before depreciation and amortisation subtotal and require, rather than permit, its presentation or disclosure (regardless of whether the subtotal includes or excludes impairments).

2. Future papers will discuss the subtotals specified by IFRS Standards in paragraph 104 of the Exposure Draft more generally.

Summary of staff recommendations

3. The staff recommend the Board:

   (a) amend the definition of the specified subtotal ‘operating profit or loss before depreciation and amortisation’ to also exclude impairments of assets within the scope of IAS 36 *Impairments of Assets*; and

   (b) label that subtotal ‘operating profit or loss before depreciation, amortisation, and specified impairments’.

4. The staff also recommend, whatever the Board’s decision about the definition of the subtotal in paragraph 3, that the Board:

   (a) not specifically prohibit the use of the label EBITDA for the subtotal; and

   (b) confirm the proposals to permit, but not require, presentation or disclosure of the subtotal in the statement of profit or loss or in the notes to the financial statements.

Structure of the paper

5. This paper is structured as follows:

   (a) proposals in the Exposure Draft (paragraphs 6–8);

   (b) comment letter and outreach feedback on the proposals in the Exposure Draft (paragraphs 9–17);

   (c) staff research on entities’ EBITDA-type measures (paragraphs 18–22);

   (d) staff analysis, recommendations, and questions for the Board (paragraphs 23–60);

   (e) Appendix A—Fieldwork relating to the proposals in the Exposure Draft;

   (f) Appendix B—Approaches considered in determining which impairments to exclude from an operating profit or loss before depreciation and amortisation subtotal;

   (g) Appendix C—Extracts of the Exposure Draft relating to required and additional subtotals, their labelling, and specified subtotals; and

(h) Appendix D—Extracts of the Basis for Conclusions relating to the proposals in Appendix C and the reasons for not defining EBITDA or describing 'operating profit or loss before depreciation and amortisation' as EBITDA.

Proposals in the Exposure Draft

6. The Board proposed in paragraph 104 of the Exposure Draft to specify a list of subtotals that are not considered management performance measures, including the subtotal 'operating profit or loss before depreciation and amortisation'. These subtotals would be subtotals specified by IFRS Standards and management performance measures could be reconciled to these subtotals. The Board acknowledged in paragraph BC170 of the Basis for Conclusions that some subtotals currently not specified by IFRS Standards are well understood by users of financial statements. Providing a reconciliation for such measures would not provide additional information because their purposes and relationship to totals or subtotals specified by IFRS Standards are well understood and would usually be apparent from their presentation in the statement(s) of financial performance.

7. Paragraph BC172 of the Basis for Conclusions explains that the Board considered whether to define earnings before interest, tax, depreciation and amortisation (EBITDA). However, the Board noted that although EBITDA is one of the most commonly used measures in communications with users of financial statements, it is not used in some industries such as finance. Furthermore, users have no consensus about what EBITDA represents, other than it being a useful starting point for various analyses. Its calculation is diverse in practice.

8. Paragraph BC173 of the Basis for Conclusions explains that the Board also considered whether a measure calculated as operating profit or loss before depreciation and amortisation would provide similar information to many of the EBITDA measures that are currently provided. However, the Board concluded it should not describe operating profit or loss before depreciation and amortisation as EBITDA. To do so would imply that operating profit or loss is the same as earnings before interest and tax which is not (always) the case because operating profit or loss does not include, for example, income from investments or from equity-accounted

associates and joint ventures. In other words, the Board was concerned about the difference between what the measure represents and the meaning of the EBITDA acronym.

Comment letter and outreach feedback on the proposals in the Exposure Draft

9. The Board did not explicitly ask for comments on the specified subtotal 'operating profit or loss before depreciation and amortisation' listed in paragraph 104(c) of the Exposure Draft. However, some respondents still expressed a view on:

    (a) its definition (paragraphs 10–15);

    (b) its labelling (paragraph 16); or

    (c) whether or not the Board should make it a required subtotal in the statement of profit or loss or in the notes to the financial statements (paragraph 17).

Feedback on the definition of the subtotal 'operating profit or loss before depreciation and amortisation' (discussed in paragraphs 25–44)

10. Most comment letter respondents remained silent on the definition of the specified subtotal 'operating profit or loss before depreciation and amortisation', some agreed with the definition, while a few, mostly users, disagreed. The respondents that disagreed with the definition disagreed because they said the subtotal that is specified should also exclude impairments. Furthermore, a few respondents, mostly standard-setting bodies, although not explicitly disagreeing with the definition, acknowledged that the Board should consider whether the specified subtotal should also exclude impairments. It should also be acknowledged that no respondent had explicitly suggested to *not* exclude impairments from the specified subtotal.

11. The arguments put forward by respondents that were of the view that the specified subtotal should also exclude impairments were that such a measure would be:

    (a) closer to measures currently provided by entities or calculated by users (e.g. EBITDA); and

(b) closer to their view of operating performance, as they viewed impairments to relate more to investment decisions in prior periods rather than to current period operating performance.

12. One user comment letter explained that they viewed impairments to be 'depreciation and amortisation catch-up adjustments', thus, in their view impairments should not be treated differently from depreciation and amortisation.

13. It was unclear from the feedback received from comment letter respondents as to whether *all* or only *some* impairments (or reversals thereof) should be excluded as:

(a) most respondents did not specify what they viewed as 'impairments';

(b) a few respondents suggested that impairments of tangible and intangible assets should be excluded. Of these respondents:

(i) two respondents explicitly mentioned that impairments of goodwill should also be excluded; and

(ii) one respondent explicitly mentioned that write downs of inventory or impairments of financial assets should *not* be excluded;

(c) one respondent suggested only excluding impairments of assets that are depreciated or amortised in accordance with IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*; and

(d) one respondent acknowledged that there are diverse views among users as to whether impairments should be excluded and that some would want to exclude impairments that were demonstrably 'non-core' to operations. However, the feedback given did not indicate what those users viewed to be 'non-core'.

14. Furthermore, during outreach, some investors raised strong concerns about the fact that the specified subtotal did not also exclude impairments of property, plant and equipment and intangible assets (including goodwill). These investors explained that they currently use similar measures, such as EBITDA, not only for (historical) financial performance comparisons but also to forecast future cash flows (where depreciation and amortisation are modelled separately based on assumptions for capital expenditures). They viewed depreciation and amortisation to be discretionary and thus have limited predictive value—hence, they preferred to make their own

capital expenditure projections. These investors said they considered the specified subtotal to be ‘distorted by impairments’ and that, in their view, such a subtotal would not be well-received by users as it would be of limited use for their purposes of cash flow forecasting.

15. These investors added that they were not concerned about not having impairments as an item disclosed in a reconciliation or about not having information on the effects of tax and non-controlling interests on impairments. They explained that the measures for which information on the effects of tax and non-controlling interests on management adjustments would be useful were generally not based on EBITDA-type measures (e.g. adjusted EPS measures).

Feedback suggesting prohibiting entities from using the label EBITDA for the subtotal ‘operating profit or loss before depreciation and amortisation’ (discussed in paragraphs 45–54)

16. Most comment letter respondents did not express a view on how the specified subtotal ‘operating profit or loss before depreciation and amortisation’ should be referred to. However, a few respondents, of which many were accountancy bodies, and none were users, said it would be confusing if a subtotal labelled EBITDA calculated in the same way as operating profit or loss before depreciation and amortisation was not treated as a management performance measure, but a subtotal labelled EBITDA by another entity calculated in a different way was treated as a management performance measure. Some of these respondents suggested that the specified subtotal ‘operating profit or loss before depreciation and amortisation’ should be prohibited from being referred to as EBITDA for this reason.

Feedback suggesting making ‘operating profit or loss before depreciation and amortisation’ a required subtotal (discussed in paragraphs 55–60)

17. A few comment letter respondents, mostly users, said they thought that the specified subtotal ‘operating profit or loss before depreciation and amortisation’ was so important to understanding the performance of an entity that it should be a required subtotal for all non-financial entities. However, it was unclear from the feedback whether these respondents believed the specified subtotal should be a required

subtotal in the statement of profit or loss or whether they meant it should either be presented in the statement of profit or loss or disclosed in the notes to the financial statements.

Staff research on entities' EBITDA-type measures

18. Staff research on 85 non-financial entities on EBITDA-type measures[1] showed that 72 entities used EBITDA-type measures in their annual report in 2018–2019 and 73 entities used EBITDA-type measures in their annual report in 2020.

19. For entities using an EBITDA-type measure and providing an EBITDA-definition in their annual reports in 2018–2020 (either by giving a narrative definition or by providing a calculation) it appears that:

    (a) 63% had adjusted their EBITDA-type measures for impairments in 2018 (of which all had incurred impairments in the period), followed by 72% in 2019 (of which 97% had incurred impairments in the period), and 74% in 2020 (of which all had incurred impairments in the period); and

    (b) 37% had not adjusted their EBITDA-type measures for impairments in 2018 (of which 72% had incurred impairments in the period), followed by 28% in 2019 (of which 80% had incurred impairments in the period), and 26% in 2020 (of which 93% had incurred impairments in the period).

20. From the staff research it appears that some entities had not adjusted their EBITDA-type measures for impairments. However, it should be noted that the staff could not confirm whether these entities:

    (a) had in fact not adjusted for impairments; or

[1] In this paper we use the term 'EBITDA-type measures' to refer to both adjusted and unadjusted EBITDA measures. By 'unadjusted EBITDA measures', we mean EBITDA-type measures that have only been adjusted for items included in 'ITDA'. By 'adjusted EBITDA measures', we mean EBITDA-type measures that have also been adjusted for items that do not represent 'ITDA', such as unusual or infrequent items.

(b) had not given an accurate description of the items they had adjusted their EBITDA-type measures for.

21. Thus, the findings may well be distorted due to entities not giving an accurate description of the adjustments they had made.

22. Of the entities that had adjusted their EBITDA-type measures for impairments:

(a) most entities adjusted for impairments of property, plant and equipment, intangible assets (including goodwill) and right-of-use assets or a subset of these impairments;

(b) some entities did not specify what they viewed as 'impairments';

(c) one entity adjusted for write downs of inventory; and

(d) one entity adjusted for impairments of financial assets.

Staff analysis

23. In the staff analysis section of this paper we discuss:

(a) whether the Board should specify an operating profit or loss before depreciation and amortisation subtotal that excludes impairments (paragraphs 25–39);

(b) whether the Board should amend the definition of the specified subtotal proposed in the Exposure Draft or specify an additional specified subtotal (paragraphs 40–42);

(c) how an operating profit or loss before depreciation and amortisation subtotal that excludes (specified) impairments could be labelled (paragraphs 43–44);

(d) whether the Board should prohibit use of EBITDA label for subtotals specified by IFRS Standards—regardless of whether it provides faithful representation of the specified subtotal (paragraphs 45–54); and

(e) whether the Board should require, rather than permit, the presentation or disclosure of an operating profit or loss before depreciation and amortisation subtotal (paragraphs 55–60).

24. Given that the respondents who had submitted feedback on the specified subtotal 'operating profit or loss before depreciation and amortisation' were, in principle, supportive of the Board's proposal to specify such a subtotal (paragraph 10), the focus of this paper is on the definition and labelling of that specified subtotal and on whether the Board should require its presentation or disclosure. Hence, we do *not* discuss the possibility of the Board not specifying any such subtotal.

Should the Board specify an operating profit or loss before depreciation and amortisation subtotal that excludes impairments?

25. In determining whether to recommend the Board specify an operating profit or loss before depreciation and amortisation subtotal that excludes impairments:

    (a) we first analyse the characteristics of impairments (paragraphs 26–32);

    (b) we then discuss how an operating profit or loss before depreciation and amortisation subtotal that excludes impairments could be specified (paragraphs 33–35); and

    (c) finally, we assess the consequences of defining a subtotal that excludes impairments (paragraphs 36–38).

The characteristics of impairments

26. If an operating profit or loss before depreciation and amortisation subtotal were to exclude impairments such a subtotal would *only* specifically exclude impairments classified in the *operating category* (e.g. impairments of investment property using the cost model would usually not be classified in the operating category and are therefore excluded by default).

27. Applying IFRS Standards, impairments arise either on:

    (a) assets applying IAS 36 (e.g. property, plant and equipment, goodwill and other intangible assets, right-of-use assets in accordance with IFRS 16 *Leases*, investment property using the cost model in accordance with IAS 40 *Investment Property*); or

(b) assets subject to the impairment requirements of IFRS 9 *Financial Instruments* (e.g. trade receivables, finance lease receivables, contract assets[2] and debt securities).[3]

28. A key **similarity between depreciation, amortisation, and impairments** is that they are all non-cash expenses. Therefore, it could be argued that impairments be treated in the same way as depreciation and amortisation for that reason. It should however be noted that other non-cash expenses (or income) are also included in the specified subtotal 'operating profit or loss before depreciation and amortisation' (e.g. expenses or income from the recognition or reversal of provisions[4] recognised in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

29. However, impairments of assets (other than goodwill) are also **dissimilar to depreciation and amortisation** in that:

(a) impairment losses recognised in prior periods for assets within the scope of IAS 36 are reversed if specific circumstances are met;

(b) loss allowances for expected credit losses on assets subject to the impairment requirements of IFRS 9 are periodically remeasured—leading *either* to an impairment loss *or* to an impairment gain.

30. Additionally, impairments of assets within the scope of IAS 36 tend to have a more non-recurring nature than depreciation or amortisation as such impairments are the result of a specific loss event having taken place. However, the staff acknowledge that this argument does not hold true for *all* impairments as loss allowances for expected credit losses are periodically remeasured. It could be argued that the periodic

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[2] Assets subject to the impairment requirements of IFRS 9 are predominantly financial assets as defined in paragraph 11 of IAS 32 *Financial Instruments: Presentation* (e.g. trade receivables). However, for example, contract assets within the scope of IFRS 15 *Revenue from Contracts with Customers* are also subject to the impairment requirements of IFRS 9.

[3] Inventories are written down to net realisable value in accordance with IAS 2 *Inventories*. It could be argued that write downs of inventories are similar to impairments of other assets in that they reduce the carrying amount of an asset. However, for the purposes of this paper, the staff do not consider further write downs of inventory, but only impairments in accordance with IAS 36 or IFRS 9.

[4] Interest expense (or income) from the unwinding of discounts on provisions would be classified in the financing category (see Agenda Paper 21A of the July 2021 Board meeting).

remeasurement of loss allowances makes impairments of assets subject to the impairment requirements of IFRS 9 more similar to depreciation and amortisation. However, the periodic remeasurement of loss allowances in accordance with IFRS 9 is different to depreciation and amortisation because, unlike depreciation or amortisation, a periodical remeasurement of a loss allowance can lead *either* to an impairment loss *or* to an impairment gain.

31. The staff think that **impairments themselves can have dissimilar characteristics**. For example, impairments of assets subject to the impairment requirements of IFRS 9 could be seen to have a more 'cash-like' nature when compared to impairments of assets within the scope of IAS 36—as the recognition of an expected credit loss indicates that less cash is expected to be received in future periods.

32. One could conclude that impairments of assets subject to the impairment requirements of IFRS 9 are *more* dissimilar to depreciation and amortisation than impairments of assets within the scope of IAS 36 due to their more 'cash-like' nature. This dissimilarity might be a reason for *not* excluding impairments of assets subject to the impairment requirements of IFRS 9 from an operating profit or loss before depreciation and amortisation subtotal.

How could an operating profit or loss before depreciation and amortisation subtotal that excludes impairments be specified?

33. Feedback from respondents to the Exposure Draft (paragraph 13) and findings from staff research on entities' EBITDA-definitions (paragraph 22) indicates that entities *and* users would most often want to exclude from an operating profit or loss before depreciation and amortisation subtotal, impairments (or reversals thereof) of:

(a) property, plant and equipment;

(b) intangible assets (including goodwill); and

(c) right-of-use assets.

34. This subset of impairments would be captured by excluding impairments of assets within the scope of IAS 36. Appendix B provides an overview of other approaches the staff considered in determining the impairments that could be excluded from an operating profit or loss before depreciation and amortisation subtotal.

35. The staff is of the view that impairments of assets subject to the impairment requirements of IFRS 9 should not be excluded from such a subtotal. The staff think these impairments have dissimilar characteristics to impairments of assets within the scope of IAS 36 due to their more 'cash-like' nature (paragraphs 31–32). Furthermore, feedback from respondents to the Exposure Draft and staff research on entities' EBITDA-definitions did *not* indicate that these impairments should be excluded (paragraphs 13 and 22).

Consequences of defining a subtotal that excludes impairments

36. The Board has yet to redeliberate the disclosure requirements for management performance measures in paragraphs 106–110 of the Exposure Draft, including the requirement to disclose the effects of tax and non-controlling interests on each item disclosed in the reconciliation required by paragraph 106(b) of the Exposure Draft. If the proposals in the Exposure Draft remain unchanged, the specified subtotal 'operating profit or loss before depreciation and amortisation' would provide cost relief to entities, as they would not need to disclose the effects of tax and non-controlling interests on depreciation and amortisation. Hence, defining a specified subtotal that excludes impairments would provide *additional* cost relief to entities wishing to adjust for impairments. However, on the contrary, users would *not* have information on the effects of tax and non-controlling interests on impairments as entities would not have to provide such information.

37. The Board's rationale for requiring disclosure of the effects of tax and non-controlling interests on each item disclosed in a reconciliation was that it allows users to calculate their own adjusted measures on a post-tax basis, excluding non-controlling interests.[5] However, it should be acknowledged that the disclosure of the effects of tax and non-controlling interests is only useful for those management adjustments that users may want to retain when calculating an adjusted profit after tax or an adjusted EPS measure. However, outreach feedback from some investors has indicated that such information would not provide substantial benefit to users (paragraph 15).

[5] See paragraph 30 in Agenda Paper 21A of the November 2018 Board meeting.

38. The staff think the advantages of providing additional cost relief to entities by defining an operating profit or loss before depreciation and amortisation subtotal that also excludes impairments (thus not requiring disclosure of the effects of tax and non-controlling interests on impairments) could outweigh the disadvantages of losing information.

Staff recommendation and question for the Board

39. The staff recommend the Board specify an operating profit or loss before depreciation and amortisation subtotal that excludes impairments of assets within the scope of IAS 36 because:

    (a) impairments have similar characteristics to depreciation and amortisation as they are all non-cash expenses—hence, they should generally not be treated differently for the purposes of specifying a subtotal (paragraph 28). However, the staff think the subtotal that is specified should *not* exclude impairments of assets subject to the impairment requirements of IFRS 9 as the staff consider these impairments to have a more 'cash-like' nature (paragraphs 31–32);

    (b) the staff think that such a subtotal would be useful for many entities and users as feedback from respondents to the Exposure Draft indicates that respondents would want impairments of assets within the scope of IAS 36 to be excluded from a specified subtotal (paragraph 13) and staff research shows that entities often adjust their EBITDA-type measures for these impairments (paragraph 22). In addition, feedback and staff research did *not* indicate that impairments of assets subject to the impairment requirements of IFRS 9 should be excluded from a specified subtotal (paragraphs 13 and 22);

    (c) furthermore, the staff think the same reasoning the Board applied in proposing that the specified subtotal 'operating profit or loss before depreciation and amortisation' would not be considered a management performance measure would equally apply to a subtotal that also excludes (specified) impairments (paragraph 6);

    (d) additionally, the advantages of providing cost relief to entities wishing to adjust for impairments in that they would not have to disclose the effects of tax and non-controlling interests on impairments might outweigh the disadvantages of losing information (paragraphs 36–38)—although the staff acknowledge that some entities may not want to exclude impairments (see also paragraph 42); and

(e) an additional benefit of specifying a subtotal that excludes (specified) impairments would be that the IFRS Taxonomy would include an element for such a subtotal.

Question for the Board
Q1 Does the Board agree with the staff recommendation to specify an operating profit or loss before depreciation and amortisation subtotal that excludes impairments of assets? If so, does the Board agree with the staff recommendation to exclude from the specified subtotal impairments of assets within the scope of IAS 36? If the Board does *not* agree with the staff recommendation to specify an operating profit or loss before depreciation and amortisation subtotal that excludes impairments of assets, does the Board confirm the proposal in the Exposure Draft to specify the subtotal as 'operating profit or loss before depreciation and amortisation'?

Amend the specified subtotal or specify an additional subtotal?

40. If the Board decides to specify an operating profit or loss before depreciation and amortisation subtotal that also excludes (specified) impairments the Board could either:

    (a) amend the specified subtotal 'operating profit or loss before depreciation and amortisation'; or

    (b) add to the list of specified subtotals an operating profit or loss before depreciation and amortisation subtotal that also excludes (specified) impairments.

41. The staff think that it could be confusing for both entities *and* users if the Board were to specify both subtotals as:

(a) it would be unclear for an entity how to label an operating profit or loss before depreciation and amortisation subtotal that is presented or disclosed in paper-based reporting and digital reporting if no impairments were recognised in the period (e.g. as opposed to prior periods); and

(b) it could be unclear for an entity presenting or disclosing a management performance measure (e.g. EBITDA-type measure) which subtotal to use as the most directly comparable subtotal specified in IFRS Standards.

42. For that reason, the staff recommend the Board amend the specified subtotal, rather than add an additional subtotal to the list of specified subtotals. The staff acknowledge that some entities may not want to adjust for impairments—thus their operating profit or loss before depreciation and amortisation subtotal is likely to be a management performance measure and they would have to disclose the effects of tax and non-controlling interests on impairments. However, the staff expect this to not often be the case, given the feedback from comment letters and outreach and the staff research on entities' EBITDA-definitions (paragraphs 13 and 22).

Question for the Board
Q2 Does the Board agree with the staff recommendation in paragraph 42 to amend the specified subtotal, rather than add an additional subtotal to the list of specified subtotals?

How could an operating profit or loss before depreciation and amortisation subtotal that excludes (specified) impairments be labelled?

43. The following labels could be considered in determining how to describe such a subtotal:

(a) operating profit or loss before depreciation, amortisation, and specified impairments;

(b) operating profit or loss before depreciation, amortisation, and impairments of property, plant and equipment, intangible assets, and right-of-use assets;

(c) operating profit or loss before depreciation, amortisation, and impairments of assets with a useful life; or

(d) operating profit or loss before depreciation, amortisation, and impairments of assets within the scope of IAS 36.

44. The staff recommend the Board label the subtotal ‘operating profit or loss before depreciation, amortisation, and specified impairments’ because:

(a) although the label in paragraph 43(a) could imply that the subtotal also excludes impairments of assets subject to the impairment requirements of IFRS 9, the staff think that the Board could provide sufficient application guidance to ensure that only impairments of assets within the scope of IAS 36 are captured;

(b) a label that contains an exhaustive list of items (paragraph 43(b)) would be vulnerable to changes made in other standards;

(c) similarly, the label in paragraph 43(c) would rely on terminology used in other standards (‘useful life’) and could be confusing as right-of-use assets are typically depreciated or amortised over the ‘lease term’ rather than their ‘useful life’.[6] In addition, some might think of ‘assets with a useful life’ as referring only to assets with a limited or finite useful life; and

(d) furthermore, the staff think that the label in paragraph 43(d) would not be well-accepted by entities in practice due to its referral to a specific standard.

Question for the Board
Q3 Does the Board agree with the staff recommendation to label an operating profit or loss before depreciation and amortisation subtotal that excludes impairments of assets within the scope of IAS 36 as ‘operating profit or loss before depreciation, amortisation, and specified impairments’?

[6] Paragraph 32 of IFRS 16 states that if the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Should the Board prohibit EBITDA as a label—regardless of whether it faithfully represents a specified subtotal?

45. This section discusses whether the Board should generally prohibit entities from using the label EBITDA for an operating profit or loss before depreciation and amortisation subtotal (that is even *if* that label would be a faithful representation of such a subtotal)—regardless of how the Board decides to specify and label such a subtotal.

EBITDA as a label for a specified subtotal or a management performance measure

46. A few respondents to the Exposure Draft suggested that the specified subtotal 'operating profit or loss before depreciation and amortisation' should be prohibited from being referred to as EBITDA because it might be unclear whether that subtotal is a subtotal specified by IFRS Standards or a management performance measure (paragraph 16).

47. In general, the Board does not prohibit entities from using different labels for totals, subtotals, and line items as long as the *meaning is clear* (see paragraph 12 of the Exposure Draft). Furthermore, paragraph 43 of the Exposure Draft states that when an entity presents additional subtotals relevant to an understanding of the entity's financial performance, those subtotals shall be presented and labelled in a manner that *faithfully represents* the line items that constitute the subtotal, making the subtotal clear and understandable.[7]

48. In the discussions prior to the publication of the Exposure Draft the Board had considered, but rejected, describing the specified subtotal 'operating profit or loss before depreciation and amortisation' as EBITDA as, in the Board's view, the label EBITDA would not (always) be a faithful representation of what the specified subtotal comprises (paragraphs 7–8).

[7] Paragraph 43 of the Exposure Draft refers to additional subtotals presented in the statement(s) of financial performance. However, the staff think an entity would equally have to comply with the general requirements in IFRS Standards on faithful representation if a subtotal is disclosed in the notes to the financial statements.

49. The label EBITDA would faithfully represent a subtotal calculated as operating profit or loss before depreciation and amortisation when, for example:

    (a) an entity does *not* have any income or expenses from investments or from equity-accounted associates and joint ventures; and

    (b) the operating category does *not* include any interest income or interest expenses (eg interest revenue in accordance with IFRS 15).

50. Additionally, the label EBITDA could be a faithful representation of a management performance measure, if that measure were to be calculated as 'earnings before interest, tax, depreciation and amortisation'.

Do we need an exception from the general proposal to not prohibit the use of different labels for the label EBITDA?

51. Given that 'operating profit or loss' would be a required subtotal in the statement of profit or loss in accordance with paragraph 60 of the Exposure Draft the staff think that entities currently providing EBITDA-type measures might alternate to an 'operating profit or loss before depreciation and amortisation' subtotal—as they then would not have to comply with the disclosure requirements for management performance measures. Staff analysis of 50 entities participating in fieldwork relating to the proposals in the Exposure Draft indicates that some entities' current EBITDA-definitions might already meet the definition of the specified subtotal 'operating profit or loss before depreciation and amortisation' (paragraphs A1–A2 of Appendix A). However, no evidence could be found on whether those entities would refrain from using the label EBITDA for such a subtotal after the final Standard becomes effective (paragraph A3 of Appendix A).

52. Regardless of how the Board decides with regards to the prohibition of EBITDA as a label for an operating profit or loss before depreciation and amortisation subtotal, it's decision would not influence the label of that element in the IFRS Taxonomy. Hence, a subtotal calculated as operating profit or loss before depreciation and amortisation is expected to be labelled 'operating profit or loss before depreciation and amortisation' in digital reporting—whatever its entity-specific labelling in paper-based reporting.

53. If the Board were to prohibit an entity from using the label EBITDA for a subtotal calculated as operating profit or loss before depreciation and amortisation in the financial statements some entities might still refer to such a subtotal as EBITDA in their management commentary in cases in which securities regulators do not prohibit measures from being labelled EBITDA.[8] Hence, an entity could label a subtotal calculated as operating profit or loss before depreciation and amortisation as:

(a) EBITDA in the management commentary; and

(b) 'Operating profit or loss before depreciation and amortisation' in the financial statements.[9]

Staff recommendation and question for the Board

54. The staff recommend the Board not prohibit the use of EBITDA as a label for an operating profit or loss before depreciation and amortisation subtotal as:

(a) imposing a ban on a specific label (that is EBITDA) would be inconsistent with the general proposals on labelling of totals, subtotals, and line items (paragraph 47); and

(b) entities would already have to apply the general requirements in IFRS Standards on faithful representation when labelling subtotals (paragraphs 48–49).

Question for the Board
Q4 Does the Board agree with the staff recommendation to not prohibit EBITDA as a label for an operating profit or loss before depreciation and amortisation subtotal?

[8] For example, the ESMA Guidelines on Alternative Performance Measures—although requiring 'meaningful labels' for alternative performance measures—do not apply to measures defined or specified in the applicable financial reporting framework (see paragraphs 17 and 19 of the ESMA Guidelines of Alternative Performance Measures).

[9] However, the staff consider such cases to be rare as it is assumed that entities would, for transparency reasons, use the same label when providing measures simultaneously in the management commentary and the financial statements.

Should the Board require, rather than permit, the presentation or disclosure of an operating profit or loss before depreciation and amortisation subtotal?

55. This section discusses whether the Board should require, rather than permit, the presentation or disclosure of an operating profit or loss before depreciation and amortisation subtotal—regardless of how the Board decides to specify such a subtotal.

Required and additional subtotals in the statement of profit or loss and in the notes to the financial statements

56. As discussed in paragraph 17, a few respondents suggested that the Board require, rather than permit, the presentation or disclosure of the specified subtotal 'operating profit or loss before depreciation and amortisation'.

57. Requiring entities to present an operating profit or loss before depreciation and amortisation subtotal in the statement of profit or loss would create a conflict with the proposed prohibition on a mixed presentation of operating expenses in the Exposure Draft as entities presenting operating expenses by function would not be able to present such a subtotal. In addition, even if the Board decides to not retain the proposed prohibition on a mixed presentation (see Agenda Paper 21B for this meeting), requiring entities to present such a subtotal would mean that entities would have to separately present depreciation and amortisation (and impairments, depending on the direction the Board takes on the specified subtotal). Such a requirement would prevent entities from presenting these expenses in cost of sales, even in cases when such a presentation would be the most useful presentation.

58. If the Board were to add an operating profit or loss before depreciation and amortisation subtotal to the list of required totals or subtotals in paragraph 60 of the Exposure Draft, the staff think the Board would also have to consider whether guidance would be necessary for situations when such a subtotal may not provide material information (for example, for financial institutions).

59. Furthermore, the staff is of the view that the current proposals would be sufficient as:

    (a) an entity would have to present an operating profit or loss before depreciation and amortisation subtotal as an additional subtotal in the statement of profit or loss if that subtotal is relevant to an understanding of the entity's financial performance in accordance with paragraph 42 of the Exposure Draft—

provided such a subtotal would fit in the structure of that entity's statement of profit or loss (paragraph BC31 of the Basis for Conclusions). Furthermore, paragraph 96 of the Exposure Draft requires disclosure of information that is not presented in the primary financial statements but is relevant to an understanding of any of them.

(b) in addition to the specific requirements set out in paragraphs 42 and 96 of the Exposure Draft, if an operating profit or loss before depreciation and amortisation subtotal is *material* in the sense that omitting it could reasonably be expected to influence decisions that users make, then that subtotal would have to be presented or disclosed (see Agenda Paper 21D of the September 2021 Board meeting on the disclosure of material classes of assets, liabilities, equity, income, expenses and cash flows).[10]

Staff recommendation and question for the Board

60. The staff recommend the Board confirm the proposal to permit, but not require, presentation or disclosure of the specified subtotal because such a subtotal would be presented in the statement of profit or loss or disclosed in the notes to the financial statements *if* it is material.

Question for the Board
Q5 Does the Board agree with the staff recommendation in paragraph 60?

[10] In cases in which entities would not present or disclose an operating profit or loss before depreciation and amortisation subtotal (due to it not being a material subtotal) users would still be able to calculate such a subtotal from the information available in the financial statements. However, the staff acknowledge that manual calculations may be time consuming and burdensome as information on depreciation and amortisation might not always be easy to find in the notes to the financial statements.

Appendix A—Fieldwork relating to the proposals in the Exposure Draft

A1. Of the 50 entities participating in fieldwork relating to the proposals in the Exposure Draft, 16 entities provided EBITDA as a performance measure in their annual report.[11] Feedback from these entities suggests that:

(a) for 8 entities, EBITDA would be a management performance measure in accordance with the proposals in the Exposure Draft;

(b) for the other 8 entities, EBITDA would not be a management performance measure.

A2. Of the 8 entities stating that the EBITDA measure they provided would not be a management performance measure:

(a) one entity explicitly stated that their definition of EBITDA equalled operating profit or loss before depreciation and amortisation and thus their EBITDA measure would not be a management performance measure; and

(b) 7 entities did not give an explanation (however, the EBITDA-definition given in the annual report of one of these entities confirmed that their definition of EBITDA equalled operating profit or loss before depreciation and amortisation).

A3. However, no evidence could be found on whether entities whose definition of EBITDA equalled operating profit or loss before depreciation and amortisation would continue to use the label EBITDA after the final Standard enters into force.

[11] Paragraphs 26–35 in Agenda Paper 21A of the December 2020 Board meeting describe the methodology of the fieldwork.

Appendix B—Approaches considered in determining which impairments to exclude from an operating profit or loss before depreciation and amortisation subtotal

		Would impairment of asset be excluded from an operating profit or loss before depreciation and amortisation subtotal?			
		All impairments	Impairments of non-current assets	Impairments of assets that are depreciated or amortised in accordance with IAS 16 or IAS 38	Impairments of assets within the scope of IAS 36
IAS 16, IAS 38	Property, plant and equipment and intangible assets with a limited/finite useful life	Yes	Subset	Yes	Yes
IAS 16, IAS 38	Property, plant and equipment and intangible assets with an unlimited/indefinite useful life	Yes	Yes	No	Yes
IFRS 16	Right-of-use assets	Yes	Subset	Subset[12]	Yes
IFRS 15	Contract assets	Yes	Subset	No	No
IFRS 15, IFRS 9	Trade receivables	Yes	No	No	No
IFRS 16, IFRS 9	Finance lease receivables (lessor)	Yes	Subset	No	No

[12] For example, right-of-use assets where ownership of the underlying asset is transferred to the lessee at the end of the lease term are depreciated to the end of the useful life of the underlying asset (see paragraph 32 of IFRS 16), which could possibly be unlimited or indefinite.

IFRS 9	Other financial assets as defined by paragraph 11 of IAS 32 (eg debt securities)	Yes, if impairment is classified in the operating category	Subset, if impairment is classified in the operating category	No	No
IAS 40	Investment property using the cost model	Yes, if impairment is classified in the operating category	Subset, if impairment is classified in the operating category	Subset, if impairment is classified in the operating category	Yes, if impairment is classified in the operating category

B1. Excluding all impairments would also capture some impairments of assets subject to the impairment requirements of IFRS 9, such as trade receivables, contract assets and finance lease receivables.

B2. Similarly, excluding impairments of non-current assets, although not capturing impairments of trade receivables[13], would still capture impairments of contract assets and finance lease receivables if they were presented as non-current in the statement of financial position.

B3. The staff also acknowledge the view expressed by one respondent to the Exposure Draft stating that in their view depreciation and amortisation were similar to impairments as they considered impairments to be an accelerated form of depreciation or amortisation (paragraph 12). However, the staff think that the systematic allocation of a depreciable or amortisable amount is different to an impairment which is the result of a specific loss event having taken place. Likewise, the staff question whether such a view could be applied to all impairments as some assets within the scope of IAS 36 are not depreciated or amortised over their useful life but rather have an unlimited or indefinite useful life. Excluding only impairments of assets that are depreciated or amortised in accordance with IAS 16 or IAS 38 would, although not capturing impairments of assets subject to the impairment requirements of IFRS 9, also not capture impairments of assets with an unlimited or indefinite useful life, such as goodwill or land.

B4. One comment letter respondent had suggested to exclude from an operating profit or loss before depreciation and amortisation subtotal only impairments that are 'non-core to operations' (paragraph 13(d)). However, the staff think it would be difficult to develop a clear rationale as to why only such impairments should be excluded. Furthermore, the staff is of the view that it would be difficult to determine which impairments are 'non-core to operations' as what is 'non-core' is entity-specific and therefore highly subjective and difficult to audit.

[13] Trade receivables are given as an example of a current asset in paragraph 68 of IAS 1 *Presentation of Financial Statements* and paragraph B58 of the Exposure Draft.

Appendix C—Extracts of the Exposure Draft relating to required and additional subtotals, their labelling, and specified subtotals

C1. Paragraph 12 of the Exposure Draft:

> [IAS 1.8] Although this [draft] Standard uses terms such as 'other comprehensive income', 'profit or loss' and 'total comprehensive income', an entity may use other terms to describe the totals, subtotals and line items required by this [draft] Standard as long as the meaning is clear. For example, an entity may use the term 'net income' to describe profit or loss.

C2. Paragraph 42 of the Exposure Draft:

> [IAS 1.85, 55] This [draft] Standard requires minimum line items and subtotals to be presented in the statement(s) of financial performance and the statement of financial position. An entity shall present additional line items (including by disaggregating required minimum line items), headings and subtotals in the statement(s) of financial performance and the statement of financial position when such presentations are relevant to an understanding of the entity's financial performance or financial position.

C3. Paragraph 43 of the Exposure Draft:

> [IAS 1.85A, 55A] When an entity presents additional subtotals in accordance with paragraph 42, those subtotals shall:
>
> (a) comprise line items made up of amounts recognised and measured in accordance with IFRS Standards;
>
> (b) be presented and labelled in a manner that faithfully represents the line items that constitute the subtotal, making the subtotal clear and understandable;
>
> (c) be consistent from period to period, in accordance with paragraph 33; and
>
> (d) not be displayed with more prominence than the subtotals and totals required by IFRS Standards.

C4. Paragraph 60 of the Exposure Draft:

> [IAS 1.81A partial] Subject to paragraph 64, an entity shall present the following totals or subtotals in the statement of profit or loss:
>
> (a) operating profit or loss;
>
> (b) operating profit or loss and income and expenses from integral associates and joint ventures (see paragraph 53);
>
> (c) profit or loss before financing and income tax (see paragraphs 63–64); and
>
> (d) profit or loss.

C5. Paragraph 96 of the Exposure Draft:

> [IAS 1.112] An entity shall disclose in the notes:
>
> (a) information about the basis of preparation of the financial statements (see paragraphs 6K–6N of IAS 8) and the specific accounting policies used (see paragraphs 27A–27G of IAS 8);
>
> (b) information required by IFRS Standards that is not presented in the primary financial statements; and
>
> (c) information that is not presented in the primary financial statements, but is relevant to an understanding of any of them.

C6. Paragraph 104 of the Exposure Draft:

> 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.

Appendix D—Extracts of the Basis for Conclusions relating to the proposals in Appendix C and the reasons for not defining EBITDA or describing 'operating profit or loss before depreciation and amortisation' as EBITDA

D1. Paragraph BC31 of the Basis for Conclusions:

> The Board proposes to retain the requirement for entities to present additional subtotals when relevant to understanding the entity's financial performance. The Board noted that any additional subtotals can be presented only if they fit in the proposed structure of the statement(s) of financial performance. The Board proposes to remove the requirement that any additional subtotals need to reconcile with the required subtotals because the proposed structure and content of the statement(s) of financial performance make this requirement redundant.

D2. Paragraph BC169 of the Basis for Conclusions:

> Because a management performance measure is complementary to the totals or subtotals in IFRS Standards, it is important for users of financial statements to understand how such measures relate to these totals or subtotals. A reconciliation provides users with information about how the management performance measure is calculated and how the measure compares to similar measures provided by other entities. The reconciliation also provides users with the information required to make their own adjustments to the management performance measure, should they decide that adjustments are needed.

D3. Paragraph BC170 of the Basis for Conclusions:

> However, the Board recognises that some subtotals currently not specified by IFRS Standards are commonly used in the financial statements and are well understood by users of financial statements. Providing a reconciliation for such measures would not provide additional information because their purposes and relationship to totals or subtotals specified by IFRS Standards are well understood and would usually be apparent from their presentation in the statement(s) of financial performance.

D4. Paragraph BC171 of the Basis for Conclusions:

> Therefore, the Board proposes to specify a list of subtotals that are not considered management performance measures including gross profit or loss (revenue less cost of sales) and similar subtotals, operating profit or loss before depreciation and amortisation, profit or loss from continuing operations, and profit or loss before income tax. These subtotals would thus be specified by IFRS Standards and management performance measures could be reconciled to these subtotals.

D5. Paragraph BC172 of the Basis for Conclusions:

> The Board also considered whether to define earnings before interest, tax, depreciation and amortisation (EBITDA). However, the Board noted that, although EBITDA is one of the most commonly used measures in communications with users of financial statements, it is not used in some industries such as finance. Furthermore, users have no consensus about what EBITDA represents, other than it being a useful starting point for various analyses. Its calculation is diverse in practice. Consequently, EBITDA measures may meet the definition of management performance measures.

D6. Paragraph BC173 of the Basis for Conclusions:

> The Board also considered whether a measure calculated as operating profit or loss before depreciation and amortisation would provide similar information to many of the EBITDA measures that are currently provided. However, the Board concluded it should not describe operating profit or loss before depreciation and amortisation as EBITDA. To do so would imply that operating profit or loss is the same as earnings before interest and tax which is not the case because operating profit or loss does not include, for example, income from investments or from equity-accounted associates and joint ventures. In other words, the Board was concerned about the difference between what the measure represents and the meaning of the EBITDA acronym. However, as discussed in paragraph BC171, the Board has included operating profit or loss before depreciation and amortisation in the list of

IFRS specified subtotals. Consequently, an EBITDA measure equal to that amount would not be a management performance measure.