
IASB[®] meeting

Date	March 2023
Project	Primary Financial Statements
Topic	Management performance measures—rebuttable presumption
	Nick Barlow (nbarlow@ifrs.org)
Contacts	Roanne Hasegawa (rhasegawa@ifrs.org)
	Aida Vatrenjak (avatrenjak@ifrs.org)

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Objective

1. This paper sets out staff analysis and recommendations responding to feedback received in targeted outreach relating to the IASB's tentative decision to establish a rebuttable presumption that a subtotal of income and expenses included in public communications outside financial statements represents management's view of an aspect of the entity's financial performance.

Summary of staff recommendations in this paper

2. We recommend the IASB explain in the application guidance for the rebuttable presumption that reasonable and supportable information for rebutting the presumption would be consistent with the way management uses or communicates the subtotal, for example:
 - (a) a subtotal being included in multiple locations with extensive analysis throughout an entity's public communications would not be consistent with the assertion that it does not communicate management's view;
 - (b) a subtotal being used internally by management would not be consistent with the assertion that it does not communicate management's view; and

-
- (c) many subtotals included in public communications would not be consistent with asserting that none of those subtotals communicate management's view.

Structure of the paper

- 3. This paper is structured as follows:
 - (a) Background (paragraphs 4–20);
 - (b) staff analysis and recommendations (paragraphs 21–43); and
 - (c) Appendix—extract from Agenda Paper 21A of November 2021

Background

- 4. This section discusses:
 - (a) the IASB's tentative decisions to:
 - (i) establish a rebuttable presumption (paragraphs 5–9);
 - (ii) provide application guidance for the rebuttable presumption (paragraphs 10–15); and
 - (b) feedback received in targeted outreach (paragraphs 16–20).

The IASB's tentative decisions

Establish a rebuttable presumption

- 5. The Exposure Draft *General Presentation and Disclosures* (Exposure Draft) proposed disclosure requirements for management performance measures which it defined as subtotals of income and expenses that:
 - (a) are used in public communications outside financial statements;
 - (b) complement totals or subtotals specified by IFRS Accounting Standards; and

-
- (c) communicate to users of financial statements management's view of an aspect of an entity's financial performance.
6. At its November 2021 meeting ([Agenda Paper 21A](#)) the IASB tentatively confirmed the objective of the management performance measures proposals as 'providing management's view of an aspect of an entity's financial performance'. Agenda Paper 21A pointed out that the Basis for Conclusions for the Exposure Draft explained this objective responded directly to early user feedback that management-defined measures are useful because they provide this insight into management's view of performance. The Agenda Paper also explained that this view was confirmed by some respondents to the Exposure Draft.
7. However, the Agenda Paper also explained that based on feedback on the Exposure Draft, and fieldwork observations, different interpretations of the application of 'management's view of an aspect of an entity's financial performance' gives rise to the risks that:
- (a) some entities may conclude that some measures that provide information about management's view of an aspect of performance and are included in public communications do not meet the definition of management performance measures. For example, some may publicly communicate measures and not provide the management performance measures disclosures claiming they are not measures that represent management's view.
- (b) other entities may conclude that measures that do not provide information about management's view of an aspect of performance meet the definition of management performance measures. For example, some may conclude that all measures required by regulators are management performance measures because they are included in public communications, even if they do not represent management's view.
8. In response to this feedback the IASB tentatively decided to establish a rebuttable presumption that a subtotal of income and expenses included in public communications outside financial statements represents management's view of an

aspect of the entity's financial performance. The rebuttable presumption is intended to reduce the subjectivity involved in judging whether a subtotal of income and expense represents management's view.

9. The IASB also tentatively decided that an entity may rebut this presumption only when it has reasonable and supportable information. Allowing entities to rebut the presumption in specific circumstances is intended to exclude subtotals that do not represent management's view but are required to be included in its public communications.

Provide application guidance for the rebuttable presumption

10. At its November 2021 meeting the IASB also tentatively decided to provide high-level application guidance on how to assess whether the entity has reasonable and supportable information. The guidance would include an explanation that the assessment of whether a subtotal of income and expenses is a management performance measure is made for the subtotal as whole. The appendix to this paper includes an extract from Agenda Paper 21A that includes the staff's initial analysis that was intended to form the basis for the application guidance.

Role of the rebuttable presumption

11. During the November 2021 IASB meeting members expressed views placing different weighting on the role of the rebuttal presumption in either:
 - (a) providing alignment between the measures included in communications outside the financial statements and those disclosed in the financial statements;
or
 - (b) permitting measures to be excluded because they do not represent management's view of an aspect of an entity's financial performance.
12. The discussion highlighted that whether a measure communicates management's view is not always straightforward and will require judgement.

-
13. IASB members expressed the following views on the rebuttable presumption generally:
- (a) one IASB member said it was important to express that the presumption that a measure included in an entity's public communications communicates management's view of an aspect of the entity's financial performance is a condition that is expected to be true.
 - (b) one IASB member highlighted that an obligation to include a measure in a public communication did not automatically disqualify it as a management performance measure. An entity would still be required to assess whether the measure communicates management's view of an aspect of the entity's financial performance. The rebuttal could only be used if management judged the measure to not communicate management's view.

Application guidance on the rebuttable presumption

14. IASB members expressed the following views regarding the proposed application guidance on the rebuttable presumption:
- (a) a few IASB members said that an entity should not be able to rebut the presumption in order to exclude a measure that it uses internally from being a management performance measure.
 - (b) a few IASB members said that the prominence with which an entity expresses a specific measure would be an indication of whether it communicates an aspect of the entity's financial performance. For example, if an entity includes significant analysis of a measure in its public communications this would be an indication that the measure communicates management's view.
15. During the discussion a few IASB members said that it was likely the application guidance on the rebuttable presumption would have behavioural consequences if the application guidance were too prescriptive. Comments raised included:

- (a) one IASB member said that there is a risk that an entity may stop providing information in its public communications about measures that are requested by stakeholders that do not communicate management's view.
- (b) one IASB member said that instead of providing information in its public communications about measures that do not communicate management's view, an entity may instead provide similar information in a different way. For example, an entity might provide further disaggregation or disclosure of individual line items in the notes to the financial statements to give users the information they need to construct a requested measure.

Feedback received in targeted outreach

16. At its January 2023 meeting ([Agenda Paper 21A](#)) the IASB discussed feedback received in targeted outreach on the IASB's tentative decisions on the proposals in the Exposure Draft. Participants in the targeted outreach were asked if the IASB's tentative decision to establish a rebuttable presumption will achieve the objectives of:
- (a) reducing the subjectivity involved in identifying the subtotals that represent management's view; and
 - (b) avoiding requiring entities to include subtotals of income and expenses as management performance measures that do not represent management's view.

Support for the rebuttable presumption

17. Many participants agreed with introducing the rebuttable presumption that a subtotal included in an entity's public communications represents management's view of an aspect of the entity's financial performance. Some preparers said that it would help them prevent duplication of disclosures required by regulators. Some accounting firms and regulators said it would be a useful tool to help challenge an entity's judgement over what is considered to represent management's view.

Concerns raised about the rebuttable presumption

18. Many participants also said that application guidance on when it would be appropriate to rebut the presumption would be important for the proposal to work in practice. In particular, some participants said it was unclear whether it would be appropriate to rebut the presumption in cases where an entity included a measure that it was not required to include in its public communications at the request of users which management does not view as its view of an aspect of the entity's financial performance.
19. A few preparers raised concerns about the effectiveness of the rebuttable presumption. These preparers were concerned that it may be challenging to rebut the presumption, even when it may be appropriate to do so, because generally in practice the circumstances in which a presumption can be rebutted are limited.
20. One participant raised a concern that the rebuttable presumption would not fully address the risk of measures based on local GAAP being included as management performance measures when they do not communicate management's view of an aspect of the entity's financial performance in its financial statements prepared in accordance with IFRS Accounting Standards. This participant preferred a specific exemption from such measures being management performance measure.

Staff analysis and recommendations

21. This section is structured as follows:
 - (a) role of the rebuttable presumption (paragraphs 23–25);
 - (b) reasonable and supportable information (paragraphs 26–28);
 - (c) information about why a subtotal does not communicate management's view (paragraphs 29–32);
 - (d) measures defined by authoritative bodies or industry groups (paragraphs 33–36);

- (e) restricting when the presumption may be rebutted (paragraphs 37–41); and
 - (f) conclusion, staff recommendation and question for the IASB (paragraphs 42–43).
22. We think that further explaining reasonable and supportable information in the application guidance would make the rebuttable presumption more practical while maintaining the objective of management performance measures to communicate management’s view. The explanation would incorporate some of the points made by IASB members in its November 2021 discussion (see paragraphs 28–30) and would build on the staff analysis included in Agenda Paper 21A of November 2021.

Role of the rebuttable presumption

23. The objective of the management performance measure requirements is to communicate management’s view of an aspect of the entity’s financial performance (see paragraph 6). However, management’s view is inherently subjective making it difficult for users, auditors and regulators to verify.
24. The role of the rebuttable presumption is to increase the verifiability of whether a subtotal represents management’s view by setting out a condition that is generally expected to be true—in the absence of other reporting obligations an entity would be expected to include a subtotal in its public communications only when it communicates management’s view of an aspect of the entity’s financial performance (see paragraph 13(a)). Hence, a measure being included in public communications is a strong indication that it represents management’s view.
25. We think that a rebuttable presumption is seen in practice as a high hurdle and can provide a sufficient basis for application, audit and regulation. This is evidenced by the comments of those stakeholders that were concerned that in practice a rebuttable presumption would be difficult to rebut (see paragraph 19) and those that said it would provide a basis for auditors and regulators to challenge management’s judgements (see paragraph 17). However, we agree with those stakeholders that said the

application guidance on when it is appropriate to rebut the presumption will be important to ensure the effectiveness of the requirement (see paragraph 18).

Reasonable and supportable information

26. There are two aspects to reasonable and supportable information that can form the basis for rebutting the presumption:
- (a) information supporting why the subtotal is included in the public communication; and
 - (b) information supporting why the subtotal does not represent management's view.
27. The staff analysis in Agenda Paper 21A of November 2021 focussed on reasonable and supportable information supporting why a subtotal is communicated in an entity's public communications (see Appendix). However, we think this guidance on reasonable and supportable information could be further developed with discussion of information supporting why a subtotal does not represent management's view.
28. We think some of the points made by IASB members in its November 2021 discussion provide examples of reasonable and supportable information that would support the assertion that a subtotal included in an entity's public communications communicates management's view and information that would not. For example:
- (a) communicating a subtotal throughout the entity's communications in a way that is consistent with it not communicating management's view would support rebutting the presumption (see paragraph 14(b)); and
 - (b) using a subtotal internally would be consistent with communicating management's view and would not support rebutting the presumption (see paragraph 14(a)).

Information about why a subtotal does not communicate management's view

29. A subtotal being communicated inconsistently with the assertion that it does not communicate management's view (see paragraph 28(a)) is information that could be observed in an entity's communications. For example:
- (a) if a subtotal were communicated in all of an entity's communications with extensive management analysis and commentary, for example highlighting the measure in management commentary on the entity's overall performance, explaining the reasons for changes in the measure from period to period and comparing the result to industry benchmarks and competitors, such communication would not be consistent with an assertion that the subtotal did not communicate management's view and would not support rebutting the presumption.
 - (b) by contrast, if a subtotal communicated in a single location in the management commentary, were described as not representing management's view, but being provided because the entity receives frequent requests from some users for the information and the entity provided no further commentary or analysis, such communication would be consistent with an assertion that the subtotal does not communicate management's view and would support rebutting the presumption.
30. Management using a subtotal internally while including it in public communications would also be observable information (paragraph 28(b)). This is not the same as saying a measure used internally by management must be a management performance measure. If a subtotal is not included in an entity's public communications, it does not meet the definition of a management performance measure. However, if an entity elects to communicate a subtotal publicly and it uses that subtotal internally, it would be reasonable to conclude that it communicates management's view and rebutting the presumption would not be appropriate.

-
31. We also think an entity communicating numerous subtotals in its public communications would appear inconsistent with an assertion that none of those subtotals communicate management's view. In such cases there would not be reasonable and supportable information to support rebutting the presumption for all measures included in the entity's public communications.
32. We think that providing additional guidance based on the explanations in paragraphs 29–31 will make it easier to verify management's view. We acknowledge that the facts and circumstances may vary and there might be cases where significant judgement is required to decide whether the evidence supporting the rebuttal of the presumption is reasonable and supportable. However, we think permitting some judgement over when it would be appropriate to rebut the presumption would better achieve the objective of the management performance measure requirements to communicate management's view of performance. We discuss an alternative of restricting when the presumption may be rebutted in paragraphs 37–41.

Measures defined by authoritative bodies or industry groups

33. We also considered whether a measure being defined by an industry group or authoritative body would be reasonable and supportable information supporting rebuttal of the presumption. However, we do not think that whether an external party or management has defined the measure determines whether it represents management's view, but rather how the measure is used.
34. As observed by one IASB member, an obligation to include a measure in a public communication does not automatically disqualify it as a management performance measure, an entity would still be required to assess whether it communicates management's view (see paragraph 13(b)).
35. Consistent with the view that the important factor is the use of the measures not who defined it, a few raised concerns in the feedback to the Exposure Draft that measures defined by particular industry groups or common to that industry should not be

prevented from being management performance measures on the basis of their being defined by the industry rather than by management.

36. Measures defined by authoritative bodies or industry groups might not have the same level of transparency as would be provided applying the management performance measures disclosure requirements. Excluding such measures from the management performance measures requirements would contribute to further differences between the information reported outside the financial statements and the information disclosed in the financial statements.

Restricting when the presumption may be rebutted

37. An alternative to enhancing the application guidance to discuss reasonable and supportable information to support whether a subtotal included in an entity's public communications communicates management's view would be to restrict when the presumption may be rebutted by providing prescriptive requirements.
38. The advantages of providing prescriptive requirements are that they would:
- (a) achieve the aim of aligning the information provided in public communications with the information provided in the financial and statements as was preferred by some IASB members (see paragraph 11); and
 - (b) be easier to apply, audit and enforce.
39. For example, application guidance could specify that the presumption may only be rebutted in specific cases, such as when the subtotal is required by law or regulation. The observability of such a requirement would remove most of the judgement over whether the rebuttal could be used making it easier to apply, audit and enforce. As fewer subtotals would qualify for the rebuttal it would also more closely align information provided in public communications with that provided in the financial statements.

-
40. However, restricting when an entity can rebut the presumption in such a way increases the risk that an entity is required to include in its management performance measures disclosures, subtotals that do not communicate management's view of an aspect of the entity's financial performance.
41. There is also a risk that such a requirement will motivate entities to stop providing information that is useful to users but does not communicate management's view of an aspect of the entity's financial performance. As noted by some IASB members the nature of the requirements could change behaviours and not providing information in public communications is one of those potential changes (see paragraph 15).

Conclusion, staff recommendation and question for the IASB

42. We think adding further discussion of reasonable and supportable evidence to the application guidance on the rebuttable presumption better achieves the objective of the requirements for management performance measures than prescriptive requirements. We think that stakeholder comments on the practical application of the rebuttal presumption can be addressed by adding to the application guidance discussion of reasonable and supportable information that a subtotal does not communicate management's view as discussed in paragraphs 29–32.
43. We recommend the IASB explain in the application guidance for the rebuttable presumption that reasonable and supportable information for rebutting the presumption would be consistent with the way management uses or communicates the measure, for example:
- (a) a subtotal being included in multiple locations with extensive analysis throughout an entity's public communications would not be consistent with the assertion that it does not communicate management's view;
 - (b) a subtotal being used internally by management would not be consistent with the assertion that it does not communicate management's view; and

-
- (c) many subtotals included in public communications would not be consistent with asserting that none of those subtotals communicate management's view.

Question for the IASB

Does the IASB agree with the staff recommendation to add to the application guidance for the rebuttable presumption as described in paragraph 43?

Appendix—Extract from Agenda Paper 21A of November 2021

A1. This appendix includes an extract of the staff analysis in [Agenda Paper 21A](#) of November 2021. At that meeting the IASB tentatively decided that this analysis would form the basis of high-level application guidance on rebutting the presumption a subtotal included in public communications outside financial statements represents management's view of an aspect of an entity's financial performance.

How would the rebuttal apply in practice?

- A2. Examples of types of subtotals of income and expenses that may not always communicate management's view of an aspect of performance that stakeholders mentioned in the comment letter feedback and the fieldwork were:
- (a) measures included in public communications for a purpose other than reporting performance (eg explaining remuneration to comply with best practice for corporate governance);
 - (b) user requested measures (eg EBITDA requested by a credit investor);
 - (c) common industry measures (eg measures agreed by an industry body);
 - (d) legislative or regulatory measures (eg a measure required by Solvency II);
 - (e) local GAAP measures (eg filing of statutory financial statements for the same entity in local GAAP).
- A3. Considering these examples, the staff has analysed how a possible requirement for reasonable and supportable information to rebut the presumption could be met. The staff also assessed to what extent we expect entities would rebut the presumption. The staff thinks that there may be reasonable and supportable information that demonstrates the subtotals of income and expenses do not reflect management's view of an aspect of financial performance when they are solely used:
- (a) to meet an externally imposed requirement (paragraphs A4–A6);
 - (b) to satisfy the request of an external party (paragraphs A7–A9); or
 - (c) communicate information other than performance (paragraph A10).

Externally imposed requirements

- A4. An externally imposed requirement can be considered a reasonable basis for rebutting the presumption because such a requirement makes including the required measures in public communications outside management's control. It is also easy to verify such grounds for rebuttal.
- A5. Based on the feedback and fieldwork the staff expect that entities would generally use the rebuttable presumption to exclude from the management performance measure requirements subtotals reported in other regulatory reports. This would be expected to include the statutory filing of financial statements prepared under local GAAP. However, when measures are judged to provide insight into management's view of performance, an entity is not expected to rebut the presumption and would disclose such measures as management performance measures. For example, in South Africa entities are required to disclose a headline earnings per share measure and entities may consider that measure to communicate management's view of an aspect of performance.
- A6. There is a risk that an entity may choose not to rebut the presumption, even when there is reasonable and supportable information, to avoid any implication that it does not agree with the view of a standard setter or regulator. However, the staff think this risk is low because excluding a subtotal would simply mean it does not communicate management's view of an aspect of performance.

Requests of external parties

- A7. An external request can be considered reasonable grounds for a rebuttal because management may have a different view than the external party making the request but still see benefit to complying with the request. However, an entity is not obliged to respond to a request, and hence makes a considered decision about the provision of the information. That considered decision could indicate that the measure communicates management's view of an aspect of performance. A strong basis would therefore be required for why the measure does not communicate management's view

and for the reasons for nonetheless complying with the request to communicate this information.

- A8. An external request can also be a supportable basis for rebuttal because the existence of a request can be verified, even though in some cases it may be more difficult to do so, for example when requests are made orally.
- A9. The feedback and fieldwork suggest some entities comply with requests and provide measures that do not communicate management's view of an aspect of performance. Hence, the staff expect that some entities would use the rebuttable presumption for measures given in response to an external request. For example, one fieldwork participant did not view EBITDA as representing management's view of their entity's performance and did not include it as a management performance measure. This participant said that they published an EBITDA subtotal solely because some investors asked for this information. However, the staff also expect that some entities would not rebut the presumption for externally requested measures. For example, some respondents to the Exposure Draft said that measures determined by an industry trade body rather than management should be included as management performance measures as they can reflect management's view of an aspect of performance. The staff expect management will often agree that a measure that is recommended by its stakeholders aligns with their view of an aspect of performance.

Communicating subtotals for a purpose other than an aspect of performance

- A10. In the staff's view, it may be difficult to establish whether there is reasonable information that demonstrates a subtotal of income and expenses does not represent management view of an aspect of performance when it is being included in an entity's public communications for a purpose other than communicating performance, if such subtotal is not required or requested. However, in the context of evolving demands for corporate reporting, there may be other types of reporting that give rise to subtotals of income and expenses intended to communicate about aspects of an entity other than its performance such as sustainability or governance.