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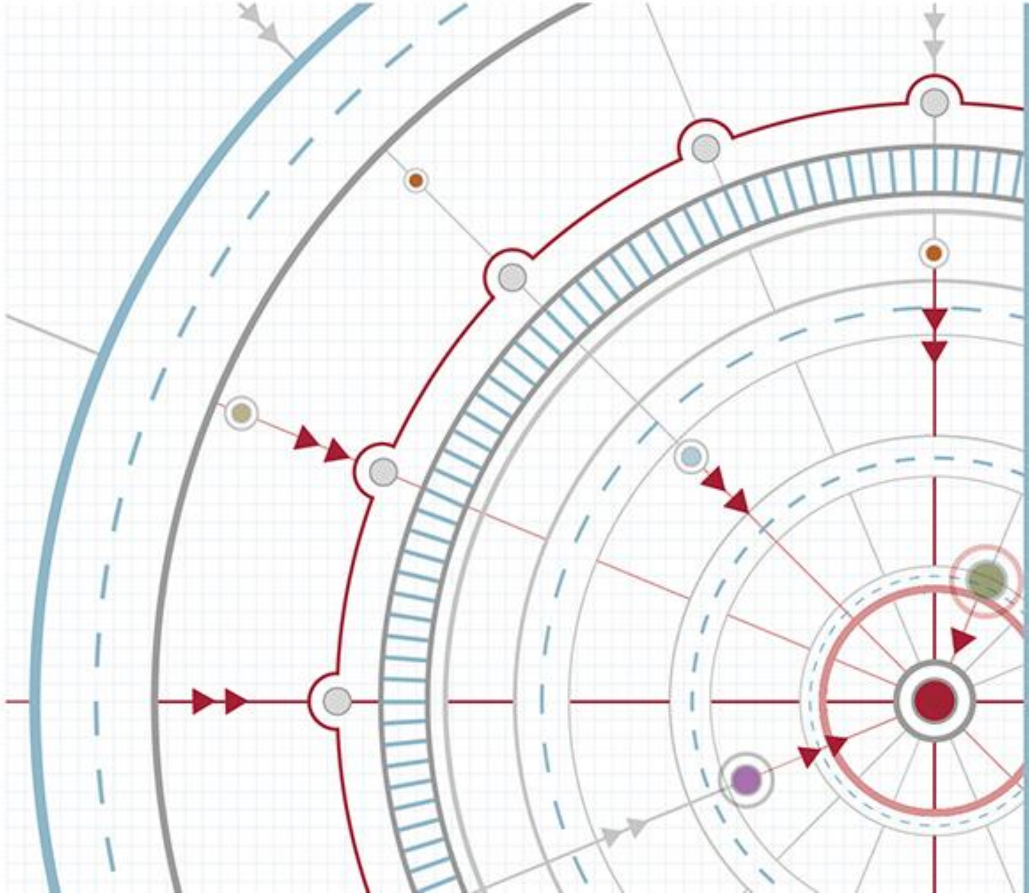

Primary Financial Statements project

Exposure Draft

General Presentation and Disclosures

June 2020

Subtotals and categories in the statement of profit or loss

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

Before we start

Housekeeping

The Exposure Draft, its accompanying documents and the slides used in this presentation are available for download on the Primary Financial Statements project webpage at www.ifrs.org/projects/work-plan/primary-financial-statements.

The views expressed are those of the presenters, not necessarily those of the International Accounting Standards Board (Board) or the IFRS Foundation.

To ask a question, type it into the designated text box on your screen and click ‘submit’. You can submit questions at any time during the presentation. We’ll try to answer them at the end of the presentation.

Primary Financial Statements project

objective

To improve how information is communicated in the financial statements, with a focus on information included in the statement of profit or loss

2015	2016-2019	Q4 2019	Q1–Q3 2020	Q4 2020
Agenda Consultation identified the project as a priority	Board discussions to develop Exposure Draft	Exposure Draft published for public comment	Comment period (ends 30 September*)	Board starts redeliberations

* Comment period extended from June 2020 due to covid pandemic

Key proposals in the ED & expected benefits

What users said		Key proposals	Expected benefits of proposals
Structure and content of statements of profit or loss varies between different entities, making it difficult to compare entities' performance	1	Introduce **defined subtotals** in the statement of profit or loss	Additional relevant information and a P&L structure that is more comparable between entities
Level of disaggregation does not always provide the information they need	2	Strengthen requirements for **disaggregating information**	Additional relevant information and material information not being obscured
Non-GAAP measures can provide useful information, but transparency and discipline need to be improved	3	Require companies to disclose information about **management performance measures** in the notes.	Transparency & discipline in use of such measures Disclosures in a single location
Classification and presentation options make it more difficult to compare entities	4	Introduce targeted improvements to the **statement of cash flows**	Improved comparability between entities

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Subtotals in the statement of profit or loss

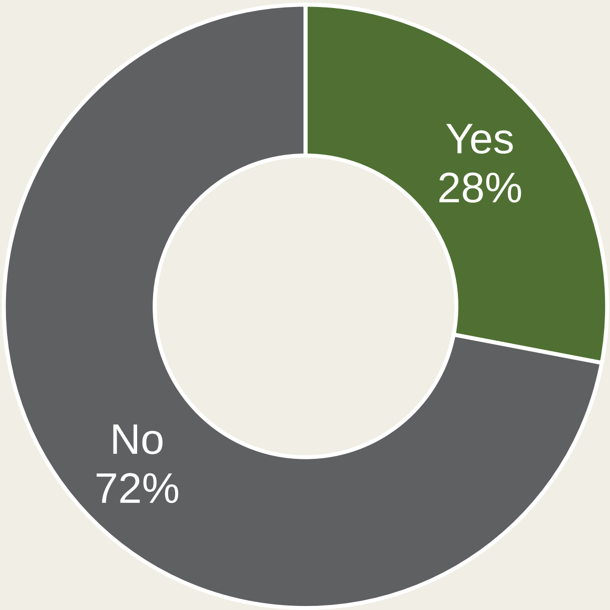
What is the issue?

No subtotals defined by IFRS Standards between 'revenue' and 'profit or loss'

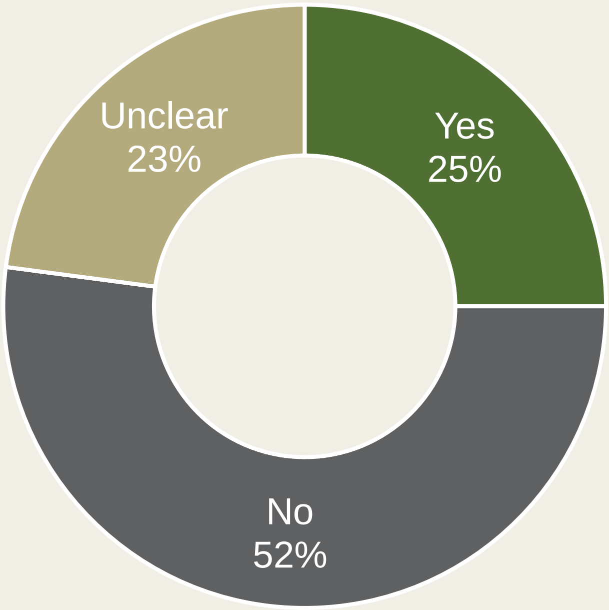
Companies calculate subtotals in different ways

In a sample of 100 companies, we found that 63 companies reported operating profit in the financial statements, using at least nine different definitions.

Share of profit or loss of associates and joint ventures included in operating profit?



Interest cost on defined benefit pension liabilities included in operating profit?



Subtotals in the statement of profit or loss

Revenue	347,000
Other income	3,800
Changes in inventories of finished goods and work in progress	3,000
Raw materials used	(146,000)
Employee benefits	(107,000)
Depreciation	(37,000)
Amortisation	(12,500)
Professional fees and other expenses	(10,030)
Operating profit	41,270
Share of profit or loss of integral associates and joint ventures	(600)
Operating profit and income and expenses from integral associates and joint ventures	40,670
Share of profit or loss of non-integral associates and joint ventures	3,380
Dividend income	3,550
Profit before financing and income tax	47,600
Expenses from financing activities	(3,800)
Unwinding of discount on pension liabilities and provisions	(3,000)
Profit before tax	**40,800**
Income tax	(7,200)
Profit for the year	**33,600**

Operating

Integral associates and joint ventures

Investing

Financing

Financing category

Objective of profit before financing and income tax is to enable comparison of entities' performance before their financing decisions. The financing category includes:

Income and expenses on liabilities arising from **financing activities**	Interest income and expenses on other liabilities	Income and expenses from cash & cash equivalents
Financing activities involve the receipt or use of a resource from a provider of finance with the expectation that: • the resource will be returned to the provider of finance; and • the provider of finance is compensated through a finance charge	Includes items such as unwinding of the discount on provisions and net interest on net defined benefit liabilities	Used as a proxy for income from excess cash and temporary investments of excess cash

Investing category

Objective: To communicate information about returns from investments separately

Income and expenses from investments	Incremental expenses
Income and expenses from assets except for income and expenses from cash and cash equivalents that generate a return individually and largely independently of other resources held by an entity	Expenses that the entity would not have incurred had the investments giving rise to the income and expenses from investments not been made

Examples (for entities that do not invest in the course of their main business activities*):

- rental income and fair value changes on investment property
- interest income and fair value changes on financial assets (other than cash & cash equivalents)
- dividends and fair value changes on non-consolidated equity investments

* For example for an investment property company, income from investment properties would be included in operating profit.

Presentation of associates and joint ventures

Different stakeholder views

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

The share of associates' and JVs' profit is after financing and after tax so I want to analyse them separately from operating profit.

Proposal—balanced approach

Companies would be required to:

- **exclude** income and expenses from **all** equity-accounted associates and joint ventures from operating profit.
- identify which of their equity-accounted associates and joint ventures are closely related ('**integral**') to their main business activities. Income and expenses from integral associates and joint ventures would be presented **immediately below operating profit**. Income and expenses from **non-integral** associates and joint ventures would be presented in the **investing** category.

Operating category

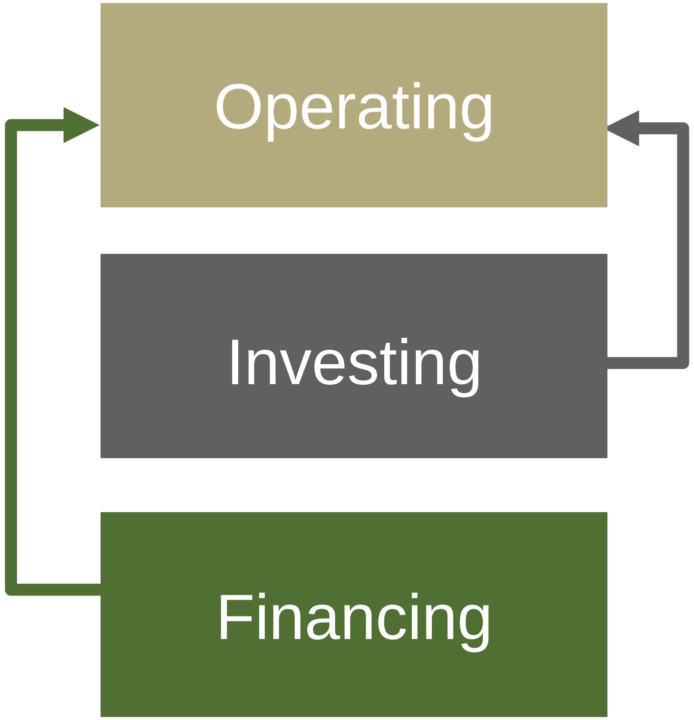
Includes income and expenses from an entity's main business activities

Defined as a default—includes income and expenses not classified in other categories	Includes unusual income and expenses
• Works for **different business models**. • A direct definition would require **significant judgement** which may result in operating profit not being comparable. • Avoids creation of a **'non-operating' category** that is neither operating, investing or financing, which may be used opportunistically.	• In the Board's view the category should provide a **complete** picture of the entity's operations for the period. • **Disclosure** on unusual items in the notes provides information on income and expenses with limited predictive value.

Application to financial entities

Income and expenses from financing activities and from cash and cash equivalents included in operating profit

- Only applicable to entities providing financing to customers as a main business activity
- Examples may include banks and entities that provide financing to customers to purchase the entity's products.
- Accounting policy choice whether to move *all* such income and expenses or *only* those related to providing financing to customers



Income and expenses from investments made in the course of main business activities included in operating profit

- Examples may include insurers, investment entities and investment property companies.
- Does not apply to income and expenses from associates and joint ventures accounted for using the equity method.

Example—investment and retail bank

Interest revenue calculated using the effective interest method	356,000
Interest expense	(281,000)
Net interest income	75,000
Fee and commission income	76,800
Fee and commission expenses	(45,300)
Net fee and commission income	31,500
Net trading income	9,100
Net investment income	11,600
Credit impairment losses	(17,300)
Employee benefits	(55,100)
[other line items not shown in this illustration]	(11,800)
Operating profit	43,000
Share of profit or loss of integral associates and joint ventures	(2,400)
Operating profit and income and expenses from integral associates and joint ventures	40,600
Share of profit or loss of non-integral associates and joint ventures	4,200
Profit before tax	44,800
Income tax expense	(11,200)
Profit for the year	33,600

all expenses from financing activities are classified in the operating category rather than the financing category

income (expenses) from investments made in the course of main business activities are classified in the operating category, rather than the investing category

no ‘profit before financing and income tax’ subtotal

Example—a manufacturer providing financing to customers

Revenue from the sale of goods	390,000
Cost of goods sold	(285,000)
Gross profit from the sale of goods	105,000
Interest revenue relating to the provision of financing to customers, calculated using effective interest method	119,500
Expenses related to the provision of financing to customers	(110,000)
Gross profit from the provision of financing to customers	9,500
Selling expenses	(28,900)
Research and development expenses	(15,800)
General and administrative expenses	(22,900)
Operating profit	46,900
Share of profit or loss of integral associates and joint ventures	4,700
Operating profit and income and expenses from integral associates & JVs	51,600
Share of profit or loss of non-integral associates and joint ventures	(7,100)
Income from financial instruments measures at fair value through profit or loss	4,200
Profit before (non-customer) financing and income tax	48,700
Interest expense not relating to the provision of financing to customers	(3,900)
Profit before tax	44,800
Income tax expense	(11,200)
Profit for the year	33,600

entity has chosen to classify only expenses from financing activities that relate to the provision of financing to customers in the operating category.

entity has chosen to classify expenses from financing activities that do not relate to the provision of financing to customers in the financing category.

EBITDA

The Board is proposing not to define EBITDA

- The Board could not identify a single underpinning concept.
- Not used in some industries.
- Calculation is diverse in practice.

The Board is proposing to define ‘operating profit before depreciation and amortisation’

- Would be allowed but not required to be reported.
- If used, no MPM disclosures would be required for this measure.
- The Board has not labelled it ‘EBITDA’ because its content does not match what the acronym ‘EBITDA’ stands for.

FX gains or losses—P&L classification

Same category as income or expense giving rise to gain or loss:

Exchange differences related to financing activities (eg on debt denominated in a foreign currency)	Financing category
Exchange differences on cash and cash equivalents	Financing category
Exchange differences on investments (eg on investments in bonds denominated in a foreign currency)	Investing category
All other exchange differences	Operating category

Derivatives & risk management—P&L classification

		Derivatives	Non-derivative financial instruments
Used for risk management	Designated as a hedging instrument	Include in the category affected by the risk the entity intends to manage, except when it would involve grossing up gains and losses—then include in the investing category	
	Not designated as a hedging instrument	Classify as above except when it would involve undue cost or effort—then include in the investing category	Apply Board's definitions for categories
Not used for risk management		Include in the investing category	

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Statement of cash flows

Statement of cash flows

Proposals

Single starting point for the indirect reconciliation: **Operating profit**

Removal of classification options for interest and dividends

Cash flow item	IAS 7 classification	Proposed approach	
		Most entities	Entities with particular business activities incl. banks
Interest paid	Operating or financing	Financing	Depends on the classification of the related income and expenses in the statement of profit or loss (mostly operating)
Interest received	Operating or investing	Investing	
Dividends received	Operating or investing	Investing	
Dividends paid	Operating or financing	Financing	Financing

Statement of cash flows – illustration
(indirect method)

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

Consistent starting point for indirect method for operating cash flows

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

Elimination of classification options for interest and dividends

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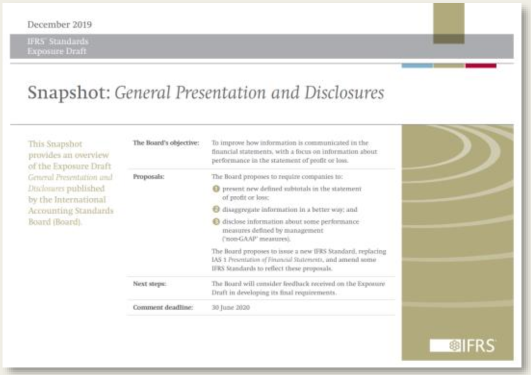
Published materials

- Exposure Draft
- Basis for Conclusions
- Illustrative Examples

and a comparison of proposals with requirements of IAS 1



Snapshot

Recording of the webinar introducing the ED* (also available on our YouTube channel)

Video of IASB Chairman introducing the proposals

* Also available in Japanese, Chinese, Portuguese, Korean, Spanish

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