

IFRS® Foundation

# Primary Financial Statements Project Update

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# Agenda

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Project status update

Subtotals

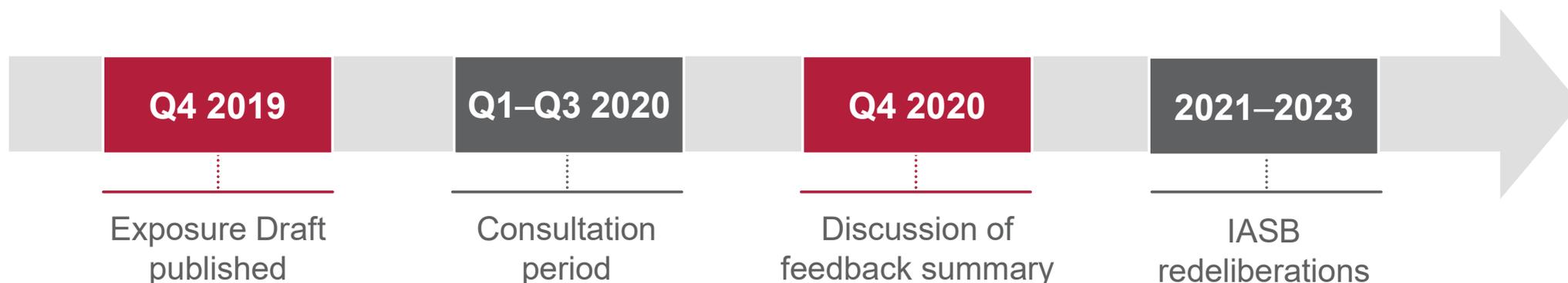
Management performance measures

Disaggregation and other topics

A grayscale world map is centered in the background. Overlaid on the map are several thick, light gray curved lines that sweep across the frame from the bottom left towards the top right. A network of thin, dotted white lines is also visible, forming a grid-like pattern across the map.

# Project status update

# Primary Financial Statements



## Objective

- Improve communication in financial statements
- Focus on information included in the statement of profit or loss

## Main proposals

- 1 Require additional **defined subtotals** in statement of profit or loss
- 2 Require disclosures about **management performance measures**
- 3 Strengthen requirements for **disaggregating information**

## Key factors considered in redeliberations planning

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### Project objective and focus

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



### Linkages between topics

Decisions on one topic may affect approach on another topic



### Timeliness

Deliver high quality IFRS Accounting Standard in a timely manner



### Efficiency

Use staff and IASB time efficiently

# Project status

Topic	Proposals redeliberated	Remaining to be discussed
Subtotals	Required subtotals; Classification in categories, general model; Associates and joint ventures; Some of the proposals for entities with specified main business activities	Remaining proposals for entities with specified main business activities; remaining issues for investing and financing categories
Management performance measures	Scope and definition; Disclosure of reconciliation; Single note and cross-referencing	Disclosure of tax and non-controlling interests Use of columns, relationship with segments and other
Disaggregation and other issues	Roles of primary financial statements and notes; General principles  Direction for unusual income and expenses; Presentation of operating expenses; Direction for disclosure of operating expenses  Statement of cash flows	Definition of unusual income and expenses, related disclosures; Disclosure of operating expenses; Proposals relating to 'other' and other small issues left, including relating to the statement of cash flows

A dark gray background featuring a light gray world map. Overlaid on the map are several curved, concentric lines and a grid of dotted lines, suggesting a global or data-related theme.

# Subtotals

# ED proposal for subtotals in the statement of profit or loss

Revenue	Operating
Other income	
Changes in inventories of finished goods and work in progress	
Raw materials used	
Employee benefits	
Depreciation	
Amortisation	
Professional fees and other expenses	
<b>Operating profit</b>	
Share of profit or loss of integral associates and joint ventures	
<b>Operating profit and income and expenses from integral associates and joint ventures</b>	Integral associates and joint ventures
Share of profit or loss of non-integral associates and joint ventures	Investing
Dividend income	
<b>Profit before financing and income tax</b>	Financing
Expenses from financing activities	
Unwinding of discount on pension liabilities and provisions	
<b>Profit before tax</b>	
Income tax	
<b>Profit for the year</b>	

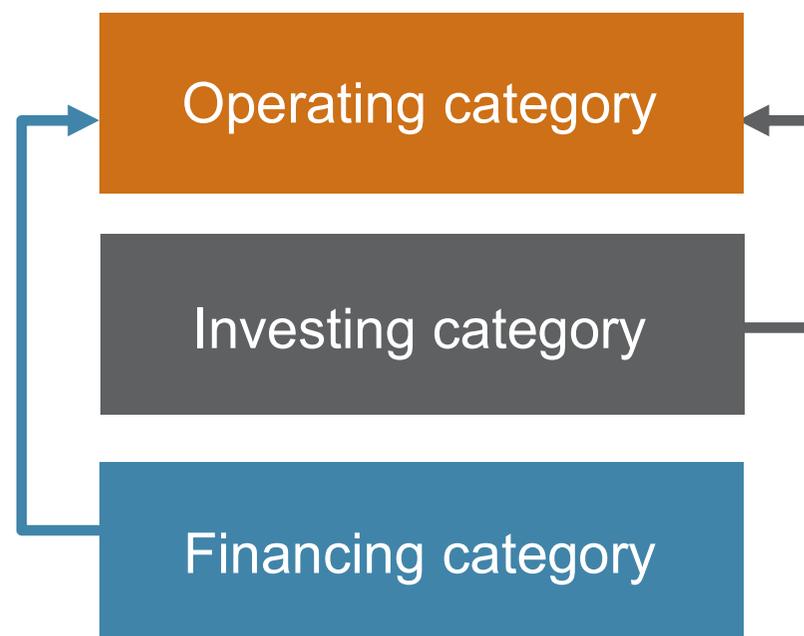
# Application of ED proposals to financial entities

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Operating profit is intended to include income and expenses from companies' main business activities.



The Board proposes requirements for some companies, such as banks, to classify income and expenses in the operating category that would otherwise be classified in the investing or financing categories.



# Redeliberations on subtotals and categories

## What is confirmed from the ED?

- Requirement for operating profit or loss subtotal and profit before financing and income tax subtotal
- Definition of operating profit as a default category, includes, but is not limited to main business activities and includes volatile and unusual items
- Income and expenses to be excluded from operating: investing, financing, income tax and discontinued operations
- Classify in the investing category income and expenses from assets that generate returns individually and largely independently of other resources held by an entity, retain application guidance and label 'investing category'

## What has changed?

- Classification of income and expenses from cash and cash equivalents changed from financing to investing category
- Approach to classification of items in the financing category
- Default category for gains and losses from derivatives and hedging instruments changed from investing to the operating category
- Undue cost or effort relief for FX classification
- Distinction between integral and non-integral associates and joint ventures removed as well as related subtotal
- Add application guidance for some income and expenses in investing category, include objective in the Basis for Conclusions, and remove definition of 'income and expenses from investments'
- Income and expenses from associates and joint ventures classified in investing category

## Remaining topics to be discussed

- Incremental expenses in investing category
- Other issues related to the financing category

# Redeliberations on entities with specified main business activities

## What is confirmed from the ED?

- Requirement for an entity to assess whether it invests in the course of main business activities or provides financing to customers as a main business activity

## What has changed?

- Requirement to assess at the reporting entity level
- Changes in the outcome of the assessment are applied prospectively with disclosure that there has been a change in the outcome of the assessment and information about the effect of the change
- Investing in the course of main business activities or providing financing to customers as a main business activity is a matter of fact and not an assertion. An entity will need to apply judgement and the assessment should be based on observable evidence to the extent possible

## Remaining topics to be discussed

- Issues specific to the investing and financing categories
- Consequences of the redeliberations on the investing and financing categories
- Consequences of the redeliberations on classification of income and expenses from associates and joint ventures accounted for using the equity method
- Classification of interest and dividends in the statement of cash flows

A dark gray background featuring a faint world map. Overlaid on the map are several curved, concentric lines and dotted lines that suggest a globe or a network. The text "Management performance measures" is centered on the right side of the map.

# Management performance measures

# Management performance measures (MPMs)

## Definition



Subtotals of income and expenses that:

- are used in public communications outside financial statements
- complement totals or subtotals specified by IFRS Accounting Standards
- communicate management's view of an aspect of an entity's financial performance

Other financial performance measures such as free cash flow, or non-financial performance measures such as number of subscribers, would not be included.

## Disclosures

Amount &  
narrative  
description

Including:

- reconciliation between the MPM and the most directly comparable total or subtotal specified by IFRS Accounting Standards; and
- income tax effects and effects on non-controlling interests (NCI)

# Redeliberations on management performance measures

What is confirmed from the ED?	What has changed?	Remaining topics to be discussed
<ul style="list-style-type: none"><li>• Requirement for disclosure of MPMs in financial statements</li><li>• Scope of MPMs would not be beyond the income and expense subtotals</li><li>• Reference to management's view of an aspect of an entity's performance in the definition of MPMs</li><li>• Requirement for an entity to disclose why an MPM communicates management's view of performance</li><li>• Requirement to disclose a reconciliation</li><li>• Requirement to disclose in single note</li></ul>	<ul style="list-style-type: none"><li>• Subtotal of income and expense used in the numerator or denominator of a ratio is MPM</li><li>• In the definition, remove the reference to 'complementing'</li><li>• Introduce a rebuttable presumption that a subtotal used in public communications represents management's view of an aspect of the entity's financial performance, and add application guidance on rebuttal</li><li>• Add application guidance, and refer to general requirement for faithful representation, removing specific requirement</li><li>• Application guidance for disclosure of why an MPM communicates management's view of performance</li><li>• Disclose, for each reconciling item, amount(s) related to each line item in the statement(s) of financial performance</li></ul>	<ul style="list-style-type: none"><li>• Disclosure requirements including tax and non-controlling interests</li><li>• Disclosures relating to changes in MPMs</li><li>• Timing of public communications</li><li>• Interaction with other requirements including segments</li><li>• Other proposals including use of columns</li></ul>

A grayscale world map is the background for the top half of the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. A network of thin, dotted white lines is also visible, connecting various points across the map. The overall aesthetic is clean and professional.

# Disaggregation and other topics

# ED proposals on disaggregation

## Roles of the primary financial statements and the notes

- Roles of the primary financial statements and the notes clearly described
- Use the description to determine whether information should be included in the primary financial statements or in the notes

## Principle for aggregation and disaggregation

- Principles for aggregation and disaggregation of information
- Guidance to apply the principles

## Required line items

- New required line items, including goodwill and separate line items for integral and non-integral associates and joint ventures

## Analysis of operating expenses

- Use method for analysis of operating expenses (by nature or by function) that provides the **most useful information** (not a free choice)
- Disclose analysis of **total** operating expenses by **nature** in the notes if analysis by function is presented in the statement of profit or loss

# ED proposals on unusual income and expenses

## Definition



Income and expenses have limited predictive value when it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future annual reporting periods.

Income and expenses from the recurring remeasurement of items measured at a current value would not normally be classified as unusual.

## Disclosures

Amount &  
narrative  
description

Amount disaggregated by:

- line items presented in statement of profit or loss; and
- line items disclosed in analysis of operating expenses by nature, if the entity analyses expenses by function in the statement of profit or loss

# Redeliberations on disaggregation

What is confirmed from the ED?	What has changed?	Remaining topics to be discussed
<ul style="list-style-type: none"><li>• Roles of primary financial statements and notes</li><li>• Principles of disaggregation – with refinements</li><li>• Not reinstate para 29 of IAS 1 requiring to separately present dissimilar items unless immaterial</li><li>• Nature and function primary characteristics for presentation of operating expenses</li><li>• Present goodwill separately from intangible assets</li><li>• Present required line items in each affected category in statement of profit or loss</li></ul>	<ul style="list-style-type: none"><li>• Include a reference to understandability in the description of the role of financial statements</li><li>• Emphasise that single dissimilar characteristic can be enough to disaggregate if it is material</li><li>• State the purpose of disaggregation more clearly and strengthen the application of disaggregation</li><li>• Provide additional guidance to apply the principles, both in the primary financial statements and the notes</li><li>• Removed the proposed prohibition on a mixed presentation approach for operating expenses</li><li>• Remove 'limited predictive value' from definition of unusual items and add application guidance</li><li>• Revise the general principle for the presentation of line items and add application guidance</li></ul>	<ul style="list-style-type: none"><li>• The rest of the definition of unusual income and expenses and related disclosures</li><li>• Requirements for disclosure of operating expenses</li><li>• Requirements for selecting method of presentation of operating expenses</li><li>• Specified and additional subtotals</li><li>• Proposals relating to 'other' items</li></ul>

# Redeliberations on other topics

What is confirmed from the ED?	What has changed?	Remaining topics to be discussed
<ul style="list-style-type: none"><li>• Requirement of operating profit or loss subtotal as the starting point for the indirect method of reporting cash flows from operating activities</li><li>• Interest and dividends paid classified as financing activities, and dividends received classified as investing activities in the statement of cash flows</li></ul>	<ul style="list-style-type: none"><li>• Amend the specified subtotal 'operating profit or loss before depreciation and amortisation' to exclude impairments of assets within the scope of IAS 36</li></ul>	<ul style="list-style-type: none"><li>• Classification of interest received in the statement of cash flows</li><li>• Proposals for labelling of items of other comprehensive income</li><li>• Requirements carried over from IAS 1 <i>Presentation of Financial Statements</i></li><li>• Amendments to other IFRS Accounting Standards; IFRS 12 <i>Disclosure of Interests in Other Entities</i>, IAS 33 <i>Earnings Per Share</i> and IAS 34 <i>Interim Financial Reporting</i></li><li>• Transition provisions and effective date</li></ul>

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