

IFRS® Foundation

Primary Financial Statements Project Update

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Agenda

Project status update

Subtotals

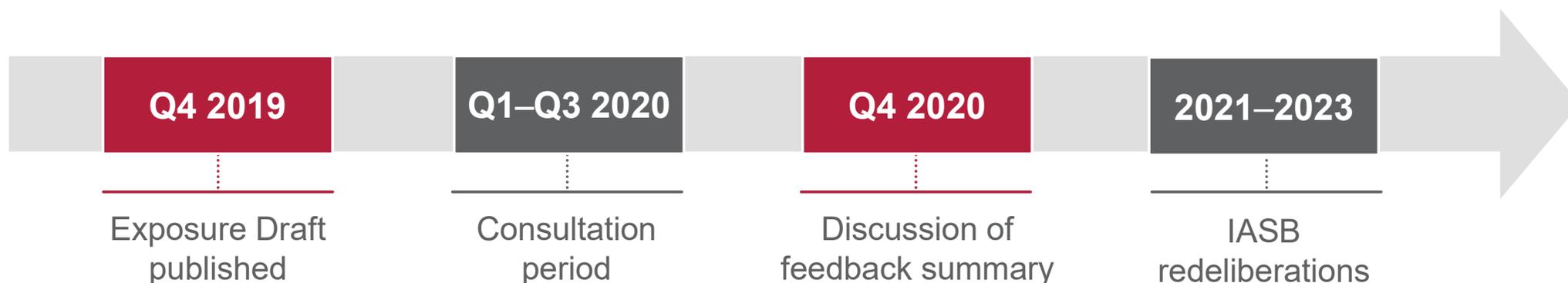
Management performance measures

Disaggregation and other topics



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



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 that sweep across the globe from the bottom left towards the top right. These lines include solid gray bands and dotted white lines, creating a sense of global connectivity or data flow.

Subtotals

ED proposal for subtotals in the statement of profit or loss

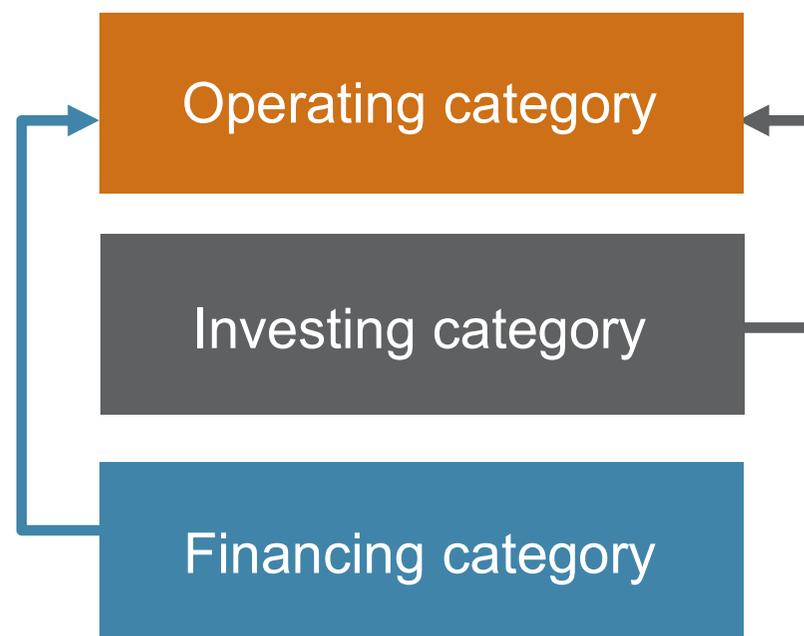
| | |
|---|--|
| Revenue | Operating |
| Other income | |
| Changes in inventories of finished goods and work in progress | |
| Raw materials used | |
| Employee benefits | |
| Depreciation | |
| Amortisation | |
| Professional fees and other expenses | |
| Operating profit | |
| Share of profit or loss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

Application of ED proposals to financial entities

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? | What has changed? | Remaining topics to be discussed |
|---|--|---|
| <ul style="list-style-type: none">• 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' | <ul style="list-style-type: none">• 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 | <ul style="list-style-type: none">• 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 grayscale world map is centered in the background. Overlaid on the map are several concentric, semi-transparent curved lines that sweep across the frame from the bottom left towards the top right. The lines are composed of a solid outer edge and a dotted inner edge, creating a sense of motion or a stylized globe.

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

A dark gray background featuring a faint world map. Overlaid on the map are several curved, concentric lines that sweep across the globe from the bottom left towards the top right. These lines include solid gray bands and dotted white lines, creating a sense of global connectivity or data flow.

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

Redeliberations on other topics

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

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