

Outline of virtual workshop on PFS 10 July 2020 15:00 – 17:00 (CEST)

30 min

- Brief introduction of participants
- Purpose of session – provide overview of proposals and related academic research summarised in the staff paper, answer questions, obtain feedback on proposals and academic evidence
- Format – overview of proposals and academic research for a section followed by questions and feedback before moving on to next section.

I Subtotals

We will discuss: proposed requirements for subtotals, objectives of proposals, and summary of academic evidence regarding subtotals.

- Proposed requirements:
 - Subtotals – Operating profit, Operating profit and income and expenses from integral associates and joint ventures, profit before financing and income tax
 - Categories – Operating, Integral associates and Joint Ventures, Financing, Investing
- Objectives of requirements:
 - Operating profit – main activities + other, address divers business models, comparability
 - PBFIT – allow analysis of performance independent of financing decisions (includes borrowing costs and interest expenses in one place)
 - Integral/non-integral split, equity accounting out of operating but recognition of interrelationship of some associates and JVs with the business.
- Summary of research:
 - Operating profit is value relevant and predicts returns, though decision to disclose may be endogenous and definitions in studies may vary
 - Operating-financing distinction is value relevant
 - EBIT type measures are frequently used
 - Mixed evidence for separating strategic from non-strategic investments
- Q&A on the proposals and related research on subtotals.

30 min

II Disaggregation

We would now like to: highlight some of the proposals for disaggregation, discuss the objectives of those proposals, and discuss the summary of academic evidence.

- Key proposals:
 - Roles of PFS and notes; disaggregation guidance
 - Analysis of expenses by nature OR by function on face of Profit or Loss Statement (and by nature in notes if by function)

- Unusual income and expenses
- Objectives of key proposals:
 - Better disaggregation – in some cases more detail in some cases less, including more info on ‘other’
 - Completeness of expenses in expense analysis (e.g. disaggregation and COS) nature info for forecasting and comparison
 - Persistence of income and expenses and consistency and transparency in related disclosure.
- Summary of research:
 - Some evidence that increased disaggregation is associated with greater. informativeness/reliability and increased guidance/requirements associated with less opportunistic behaviour in disaggregation decisions
 - There is limited evidence on analysis by nature versus by function
 - Evidence that identifying non-persistent items is useful for forecasting
 - Managers’ classifications of special items may be opportunistic or informative
- Q&A on the proposals and related research on subtotals.

30 min

III MPMs

The last topic we would like to discuss is management performance measures. Again, we’ll discuss the proposed requirements, their objectives, and a summary of the academic evidence.

- Proposed requirements:
 - Subset of non-GAAP measures to be included in the financial statements (publicly communicated, complement IFRS subtotals, in management’s view communicate an aspect of performance)
 - Disclosure requirements – explanation of usefulness, reconciliation to IFRS, tax and NCI
 - Single note containing all disclosures
- Objectives of key proposals:
 - Transparency provided to measures considered useful by both users and preparers
 - Discipline and audit
 - Usability – single note.
- Summary of research:
 - Evidence that non-GAAP measures are value relevant
 - There are differing motivations for disclosing non-GAAP measures
 - Transparency of defining and reconciling non-GAAP measures to GAAP measures increases the usefulness of non-GAAP measures
- Q&A on the proposals and related research on subtotals.