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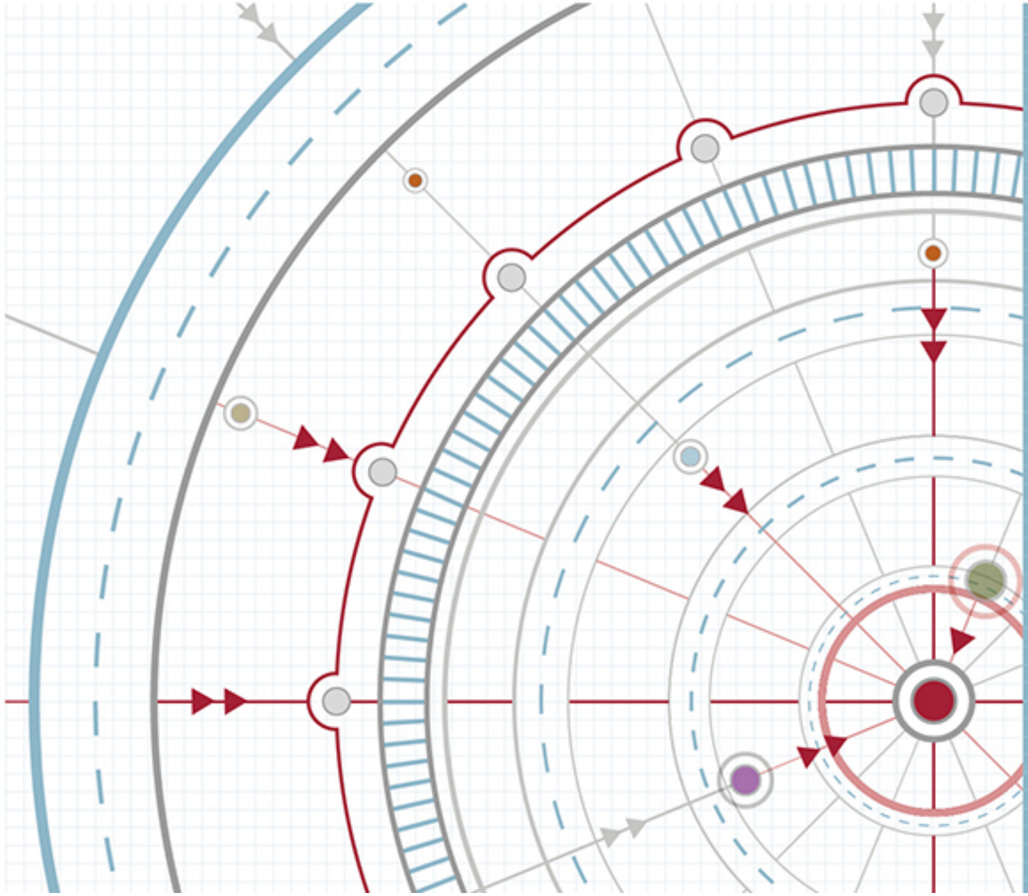

Exposure Draft

General Presentation and Disclosures

17 July 2020

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IFRS®

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

*Extended from 30 June due to covid-19 pandemic.

Project responds to investor needs

What investors say	Board's main proposals
Subtotals in the statement of profit or loss need to be comparable between different companies.	1 Require companies to present additional **defined subtotals** in the statement of profit or loss.
Companies should provide more granular information and information grouped in a way that provides better inputs for our analysis.	2 Strengthen requirements for **disaggregating information**.
Performance measures defined by management can provide useful information, but should be used in a more transparent and disciplined way.	3 Require companies to disclose information about **management performance measures** in the notes.

*The Exposure Draft also contains other proposals, including targeted improvements to the statement of cash flows.

➊ Subtotals in the statement of profit or loss

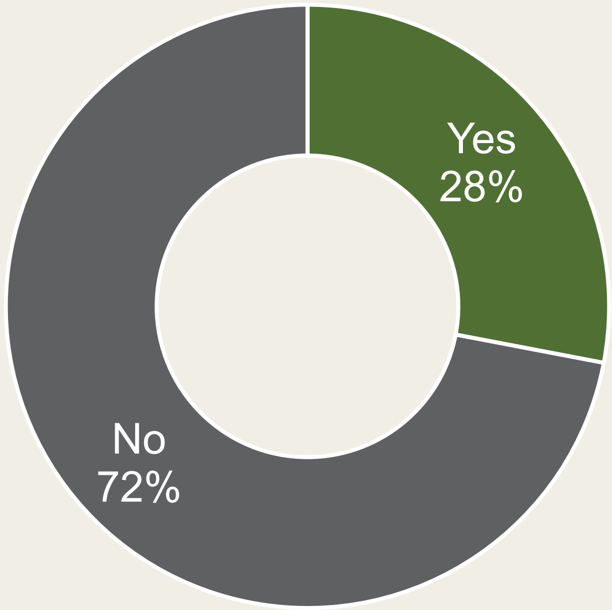
❶ What is the issue?

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

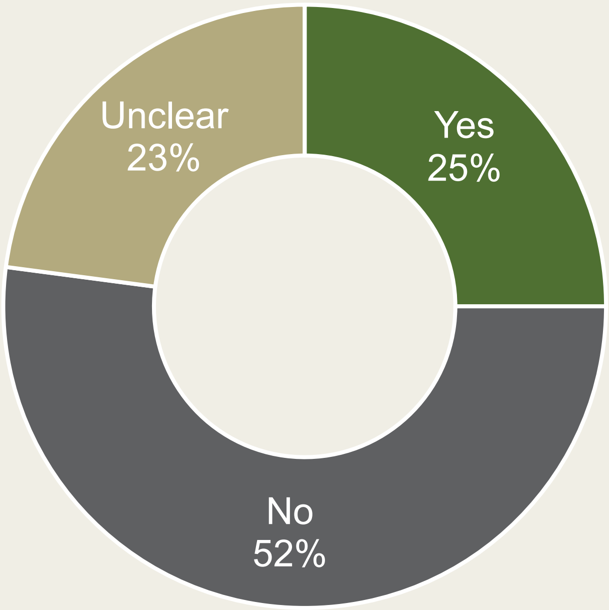
Companies calculate subtotals in different ways

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?



❶ Board proposals—subtotals and categories

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

➊ What would be included in each of the categories?

Operating

- Includes information about income and expenses from an entity's main business activities.
- Default category—income and expenses would be classified in the operating category unless they are classified in the other categories.

Investing

- Aims to capture income and expenses from investments that investors typically seek to analyse separately from an entity's operations.
- Includes items such as fair value changes on investment property and financial assets (other than cash & cash equivalents).

Financing

- Would help investors compare companies' performance before the effects of companies' financing decisions.
- Includes income and expenses from cash and cash equivalents, income and expenses on liabilities arising from financing activities and interest income and expenses on other liabilities, such as the unwinding of a discount on pension liabilities.

(see next side for 'integral associates and joint ventures category)

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 JVs from operating profit.
- identify which of their equity-accounted associates and JVs are closely related ('**integral**') to their main business activities, ie do not meet the definition of income and expenses from investments (see previous slide) and present them in a separate category
- Income and expenses from **non-integral** associates and JVs would meet definition of income and expense from investments and would be classified in the **investing** 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.

❶ Application to financial entities

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 category.

This approach achieves the objective that operating profit includes income and expenses from companies' main business activities.

❶ 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

❷ Disaggregation

❷ Disaggregation

Analysis of operating expenses by nature and by function

strengthening current requirements

Roles of the primary financial statements and the notes

Required line items

including goodwill

Unusual income and expenses

Principles for aggregation & disaggregation

Requirements for grouping dissimilar immaterial items

avoiding ‘other’ labels

❷ Disaggregation—roles and line items

Roles of the primary financial statements and the notes

- **Role of the primary financial statements** is to provide a structured and comparable summary of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows.
- **Role of the notes** is to:
  - provide further information necessary for users of financial statements to understand the items included in the primary financial statements; and
  - supplement the primary financial statements with other information that is necessary to meet the objective of financial statements.

Required line items

New required line items would include:
- Goodwill (statement of financial position)
- Separate line items for integral and non-integral associates and joint ventures (statement of profit or loss, cash flows and financial position)
- Income or expenses from financing activities

② Disaggregation—principles and grouping of dissimilar items

Principles for aggregation & disaggregation

1. Identify assets, liabilities, equity, income and expenses that arise from individual transactions or other events
2. Classify items into groups based on shared characteristics, resulting in line items in the primary financial statements that share at least one characteristic
3. Separate those line items based on further characteristics, resulting in the separate disclosure of material items in the notes

Grouping dissimilar immaterial items

- Companies should use **meaningful labels** for groups of immaterial items, avoiding line items such as ‘other expenses’.
- If that is not possible, companies would be required to provide information in the **notes** about the **content** of such groups of items.

❷ Analysis of operating expenses

Statement of profit or loss	Notes
Use method for analysis of operating expenses (by nature or by function) that provides the **most useful information**	Disclose analysis by **nature** in the notes if analysis by function is presented in the statement of profit or loss

Statement of profit or loss

- **Not a free choice**—the Board proposes to provide a set of indicators to help companies select a method.
- Companies should **not mix** the two methods.
- Would **remove option** to present analysis of expenses in the **notes only.**

Notes

- Analysis of **total** operating expenses—no requirement to analyse each functional line item by nature.

❷ Example of analysis by nature in the notes

Changes in inventories of finished goods and work in progress	3,000
Raw material used	(146,000)
Employee benefits	(107,000)
Depreciation	(27,000)
Amortisation	(5,500)
Impairment of property, plant and equipment	(5,000)
Impairment losses on trade receivables	(4,500)
Property taxes	(5,200)
Litigation expenses	(1,900)
Gains (losses) on derivatives	(5,500)
Other miscellaneous expenses	(4,930)
Operating expenses total	(309,530)

❷ Unusual income and expenses

Definition

Income and expenses with **limited predictive value**.
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

❷ Example of unusual items by P&L line item

	Unusual items by type		
Line items in P&L that include unusual items	Property tax	Restructuring in country B	Total unusual items
Cost of sales		(4,990)	(4,990)
General & administrative expenses	(2,500)	(410)	(2,910)
Expenses from financing activities		(600)	(600)

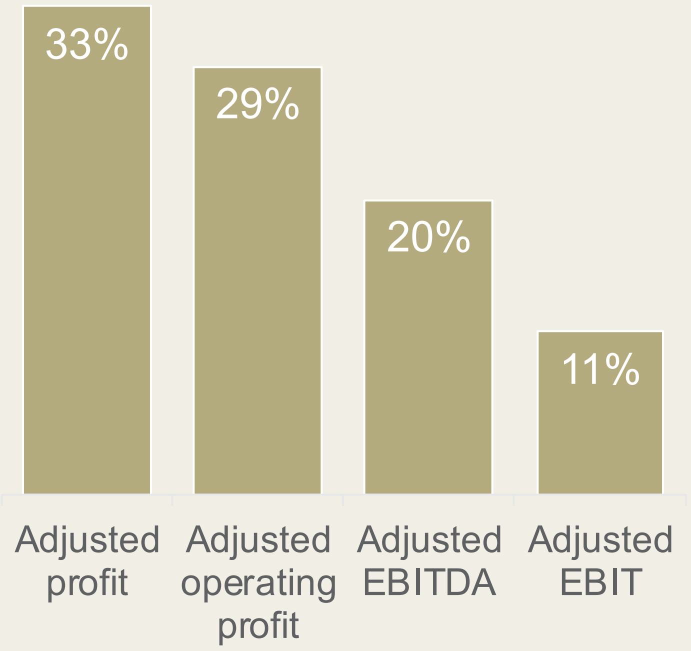
❸ Management performance measures

❸ What is the issue?

Many companies provide performance measures defined by management in communications with investors (often referred as non-GAAP).

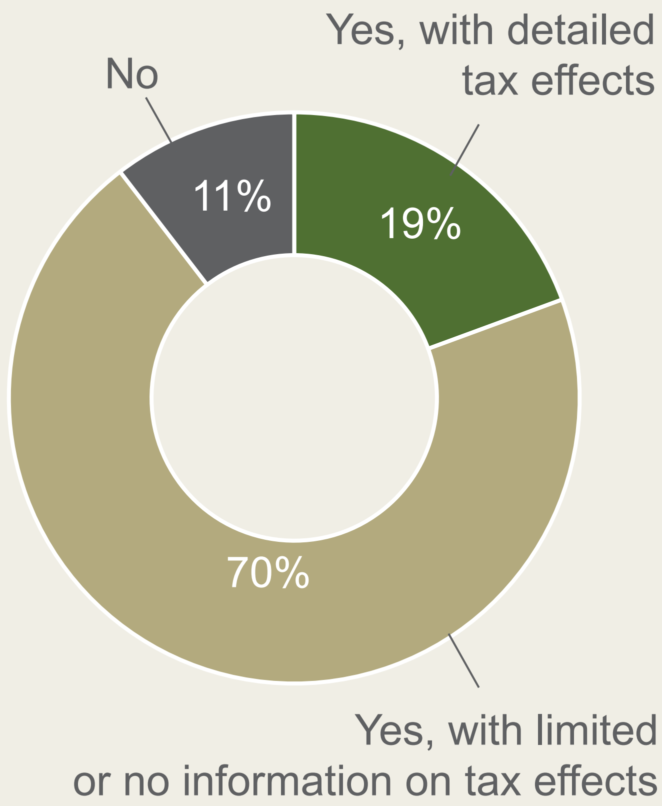
Investors have said such measures can provide useful information, but should be used in a more transparent and disciplined way.

Common management-defined performance measures



% of companies using measure in annual report

Is a reconciliation provided to a measure specified by IFRS Standards?



③ Management performance measures (MPMs)

Disclosure in the notes of subtotals of income and expenses that:

Are used in public communications **outside financial statements**

Complement totals or subtotals specified by IFRS Standards

Communicate **management's view** of an aspect of an entity's financial performance

Accompanied by disclosures in a **single note** to **enhance transparency**

❸ Not all performance measures are MPMs

Performance measures

Non-financial performance measures

For example:
- Number of subscribers
- Customer satisfaction score
- Store surface

Financial performance measures

(Sub)totals of income and expenses

IFRS-specified

For example:
- Profit or loss
- Operating profit
- Operating profit before depreciation and amortisation

MPMs

For example:
- Adjusted profit or loss
- Adjusted operating profit
- Adjusted EBITDA

Other measures that are not subtotals of income/expenses

For example:
- Free cash flow
- Return on equity
- Net debt
- Same-store sales

❸ Example of MPM reconciliation in the notes

		Tax	NCI
Adjusted operating profit (MPM)	52,870		
Restructuring in Country X	(5,400)	900	(1,020)
Revenue adjustment	(6,200)	1,550	-
Operating profit (IFRS-specified)	41,270		

Most directly comparable subtotal/total specified by IFRS Standards—can be:

- any of the subtotals required by paragraph 81A of IAS 1 (paragraphs 60 and 73 of the Exposure Draft);
- any of the three subtotals proposed in this project;
- profit before tax, profit from continuing operations or measures similar to gross profit; or
- operating profit before depreciation and amortisation

Simplified approach to calculating the tax effect

Structure of the Exposure Draft

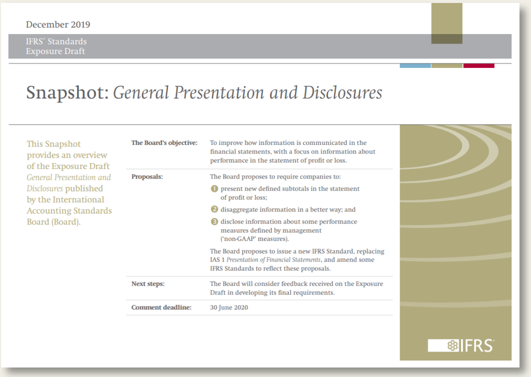
New IFRS Standard	Proposed **new** presentation and disclosure requirements +	Related requirements brought forward from **IAS 1** with limited wording changes
Amendments to other Standards	• IAS 7—statement of cash flows • IFRS 12—associates and JVs • IAS 33—earnings per share • IAS 34—interim reporting	Other requirements of **IAS 1**—moved to IAS 8 and IFRS 7

→ **Withdraw IAS 1**

Published materials

- Exposure Draft
- Basis for Conclusions
- Illustrative Examples

and a comparison of proposals with requirements of IAS 1



Snapshot

Webinar introducing the Exposure Draft

Video of Hans introducing the proposals

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