Better Communication in Financial Reporting

- Primary Financial Statements
- Disclosure Initiative
- Management Commentary
- IFRS Taxonomy
Central theme of the Board’s work

Better Communication in Financial Reporting

Content

- Primary Financial Statements
- Disclosure Initiative
- Management Commentary

Delivery

- Financial statements
- Information outside financial statements

IFRS Taxonomy
Primary Financial Statements
Objective of the Primary Financial Statements project

Targeted improvements to the primary financial statements with a focus on the statement(s) of financial performance

Primary Financial Statements

- Statement(s) of financial performance
- Statement of financial position
- Statement of cash flows
- Statement of changes in equity
Respondents identified the project as a priority and recommended focusing on the statement(s) of financial performance.

Board decision on project scope
Targeted improvements, mainly to the presentation of the statement(s) of financial performance.

Publish Exposure Draft or Discussion Paper

Board discussions on topics in project scope
PFS—Stakeholder feedback and key tentative Board decisions

- **Users**: Statements of financial performance are not sufficiently comparable between different companies
- **Users**: Non-GAAP measures can provide useful information, but transparency needs to be improved
- **Preparers**: I need flexibility to tell my company’s story
- **Users**: There is insufficient disaggregation in financial statements

**Introduce defined subtotals** in the statement(s) of financial performance

**Introduce disclosure of Management Performance Measures**

**Improve** disaggregation
## PFS—Full scope of the project

<table>
<thead>
<tr>
<th>Statement(s) of financial performance</th>
<th>Statement of cash flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduce subtotals &amp; categories facilitating comparisons between entities:</td>
<td>Eliminate classification options (interest/dividends)</td>
</tr>
<tr>
<td>• Operating, investing and financing categories</td>
<td>Introduce consistent starting point for the indirect method</td>
</tr>
<tr>
<td>• Presentation of share of profit of associates and JVs</td>
<td>Prescribe classification of cash flows related to associates and JVs</td>
</tr>
<tr>
<td>Introduce disclosure of management performance measures</td>
<td></td>
</tr>
<tr>
<td>Improve communication of OCI</td>
<td></td>
</tr>
</tbody>
</table>

### Improving disaggregation in financial statements by:

- Introducing principles of disaggregation in financial statements
- Requiring disaggregation by nature or by function in the statement(s) of financial performance
- Requiring disclosure of unusual or infrequent items
- Requiring minimum line items in the primary financial statements
- Developing illustrative examples of primary financial statements for a small number of industries
## PFS—Introduce three defined subtotals in the statement of profit or loss

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
<th>Exclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Operating profit</td>
<td>Excludes share of profit from <strong>all</strong> associates/JVs</td>
</tr>
</tbody>
</table>
| 2    | Operating profit and share of profit of integral associates/JVs | • Excludes **income/expenses from investments**, which are defined as ‘income/expenses from assets that generate a return individually and largely independently of other resources held by the entity’  
• Excludes share of profit from **non-integral** associates and JVs |
| 3    | Profit before financing and income tax | Excludes:  
• Income/expenses arising from **financing activities**  
• Income from **cash and cash equivalents**  
• **Unwinding of discount** on liabilities that do not arise from financing activities |

**Defined bottom-up**
## PFS Defined subtotals
—illustrative example for general corporates (by nature)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>16,500</td>
</tr>
<tr>
<td>Changes in inventories of finished goods and work in progress</td>
<td>(1,000)</td>
</tr>
<tr>
<td>Raw material and consumables used</td>
<td>(6,000)</td>
</tr>
<tr>
<td>Employee benefits expense</td>
<td>(4,000)</td>
</tr>
<tr>
<td>Impairment of property, plant and equipment</td>
<td>(500)</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>(1,200)</td>
</tr>
<tr>
<td>Amortisation expense</td>
<td>(800)</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>3,000</td>
</tr>
<tr>
<td>Share of profit of integral associates and JVs</td>
<td>500</td>
</tr>
<tr>
<td><strong>Operating profit and share of profit or loss of integral associates and JVs</strong></td>
<td>3,500</td>
</tr>
<tr>
<td>Changes in the fair value of financial assets</td>
<td>250</td>
</tr>
<tr>
<td>Dividend income</td>
<td>50</td>
</tr>
<tr>
<td>Share of profit of non-integral associates and JVs</td>
<td>100</td>
</tr>
<tr>
<td><strong>Profit before financing and income tax</strong></td>
<td>3,900</td>
</tr>
<tr>
<td>Interest income from cash and cash equivalents</td>
<td>100</td>
</tr>
<tr>
<td>Expenses from financing activities</td>
<td>(1000)</td>
</tr>
<tr>
<td>Unwinding of discount</td>
<td>(100)</td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td>2,900</td>
</tr>
</tbody>
</table>
**PFS—Classification of income/expenses for financial entities**

**Starting point**
(Tentative Board decisions for non-financials)

- Present all 3 subtotals
  - All expenses from financing activities and income from cash & cash equivalents:
    - Financing
  - All income (expenses) from investments:
    - Investing

**Tentative Board decisions for financial entities**

- **If providing financing to customers is the main business activity,** make accounting policy choice:
  - Allocate expenses from financing activities and income from cash & cash equivalents:
    - Related to provision of financing to customers
    - Not related to provision of financing to customers
  - OR
  - Present all expenses from financing activities and income from cash & cash equivalents in:
    - Operating
    - Financing

- **If the entity invests in the course of its main business activities:**
  - Allocate income/expenses from investments:
    - Investments in course of main business activities
    - Investments not in course of main business activities
  - OR
  - If no expenses from financing activities or income from cash & cash equivalents in financing category:
    - No ‘profit before financing & tax’ subtotal
    - Insurance finance expenses (income):
      - Operating
PFS—Management performance measures

Preparers

I need flexibility to tell my company’s story

Tentative Board decisions

Identify a measure (or measures) of profit that, in management’s view, communicates the financial performance of the entity.

This measure will often be a subtotal or total specified by IFRS Standards, but could be a management performance measure (MPM) that complements those subtotals or totals.

If entities identify MPMs, they will usually be disclosed in the notes, because few will fit the structure of the statement(s) of financial performance.

No specific constraints on the calculation of MPMs.
Non-GAAP measures can provide useful information, but transparency needs to be improved

**Users**

- Disclose a reconciliation in the notes between the MPM and the most directly comparable subtotal/total specified by IFRS Standards (*not* as a column on the face)
- Disclose the effect on tax and non-controlling interests separately for each reconciling item
- Explain any differences between MPMs and segment measures
- Describe why the MPMs provide management’s view of performance and how they have been calculated
- Label MPMs in a clear and understandable way
- Explain any changes over time in calculation of MPMs
## PFS—Statement of cash flows

### Tentative Board decisions
- Single starting point for the indirect reconciliation: **Operating profit**
- Removal of classification options for interest and dividends

<table>
<thead>
<tr>
<th>Cash flow item</th>
<th>IAS 7 classification</th>
<th>Tentative Board decision—non-financial entities</th>
<th>Tentative Board decision—financial entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest paid</td>
<td>Operating or financing</td>
<td>Financing</td>
<td>Operating or financing*</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>Operating or financing</td>
<td>Financing</td>
<td>Financing</td>
</tr>
<tr>
<td>Interest received</td>
<td>Operating or investing</td>
<td>Investing</td>
<td>Operating, investing or financing*</td>
</tr>
<tr>
<td>Dividends received</td>
<td>Operating or investing</td>
<td>Investing</td>
<td>Operating or investing*</td>
</tr>
</tbody>
</table>

* Depends on classification of related income/expenses in P&L
## PFS—Disaggregation

### Users

There is insufficient disaggregation in financial statements

### Tentative Board decisions

- Introduce improved principles, definitions and guidance on aggregation and disaggregation including specific principles to address large ‘other’ balances.
- Require entities to disclose information about unusual and infrequent items in the notes, attributed to line items in the statement(s) of financial performance.
- Require entities to present their primary analysis of expenses by nature or by function in the statement(s) of financial performance.
- Develop illustrative examples for the primary financial statements for a small number of industries.

### Board still to consider

- Expanding the list of minimum required line items in the primary financial statements
- Developing principle-based guidance for identifying unusual or infrequent items
Resources available on our website

New website
www.ifrs.org

Video

Leaflet
Supporting IFRS Standards

Supporting materials sorted by Standard

IFRS Standards

IFRIC Interpretations

News and events

For example, for IFRS 9 *Financial Instruments*

Webinars

Articles

Transition Resource Group

Agenda decisions

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