

Primary Financial Statements project
Exposure Draft
General Presentation and Disclosures

August 2020
Management Performance Measures

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

Housekeeping

The Exposure Draft, its accompanying documents and the slides used in this presentation are available for download on the Primary Financial Statements project webpage at www.ifrs.org/projects/work-plan/primary-financial-statements.

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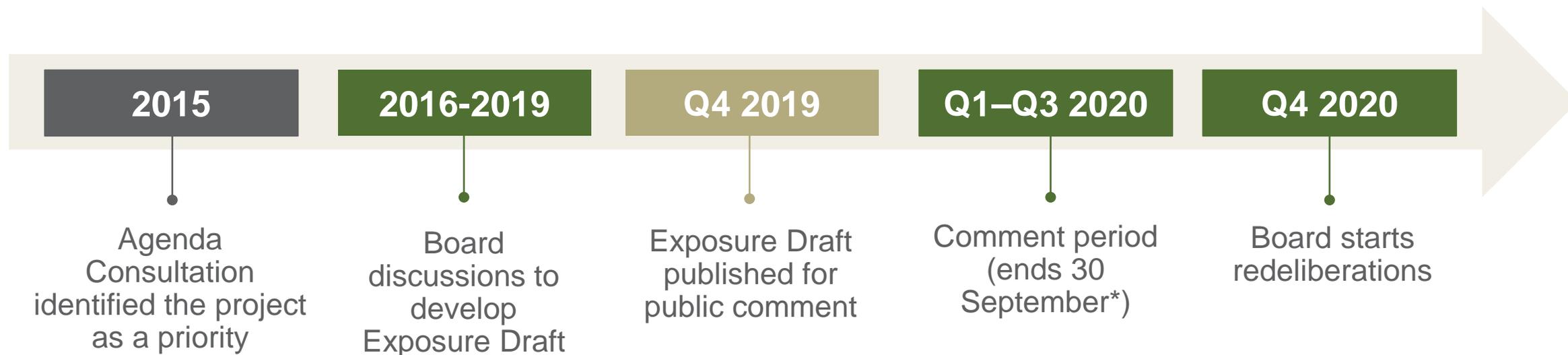
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Primary Financial Statements project



objective

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



* Comment period extended from June 2020 due to covid 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.

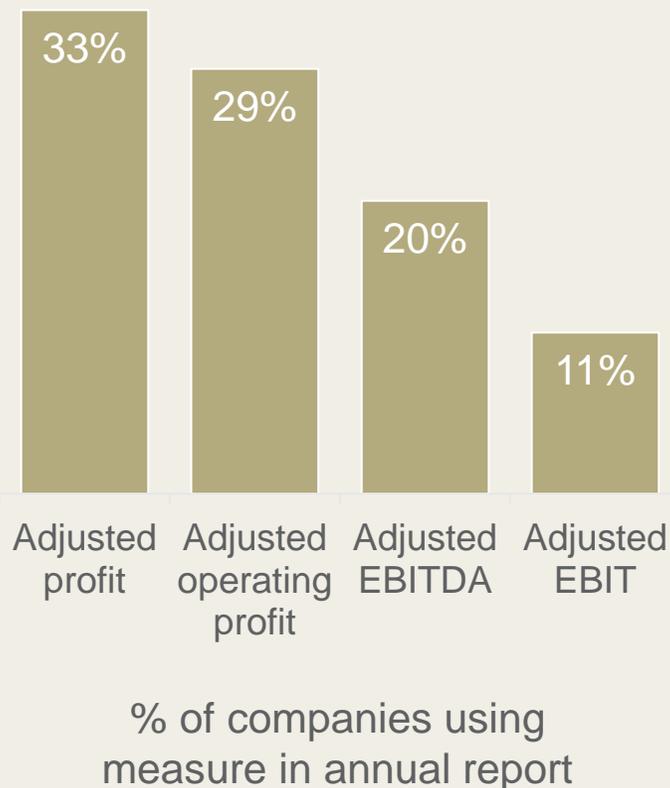
Management performance measures (MPMs)

What is the issue?

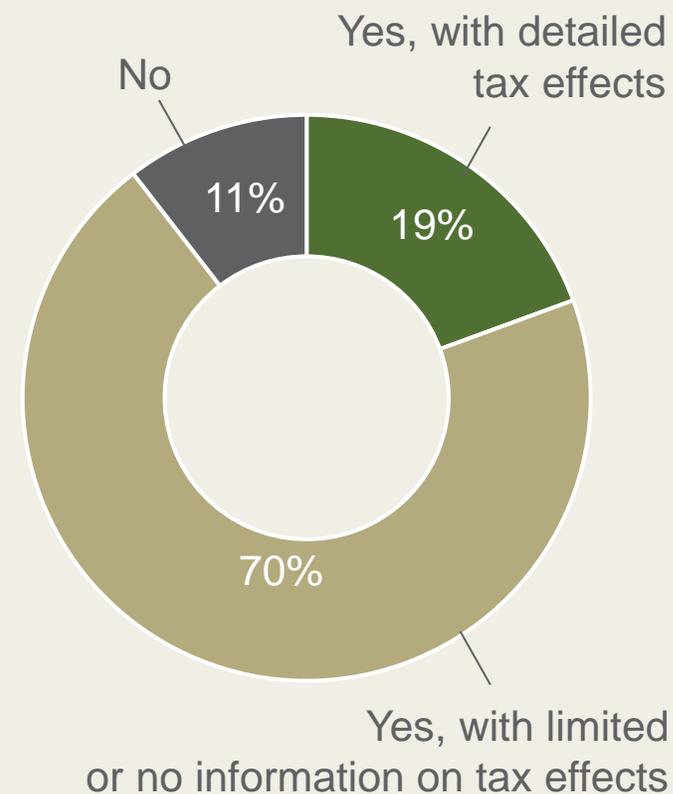
Many companies provide performance measures defined by management in communications with investors.

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



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



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

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.

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**

MPMs—proposed disclosures in the notes

A **reconciliation** between the MPM and the most directly comparable subtotal or total specified by IFRS Standards

A statement that the MPM provides **management's view** of an aspect of the entity's financial performance and is **not necessarily comparable** with measures provided by other entities

A description of why the MPM communicates management's view of performance, including an explanation of:

- **how** the MPM is **calculated**
- **how** the measure provides **useful information** about the entity's financial performance

The **income tax** effect and effect on **non-controlling interests** separately for each item disclosed in the reconciliation, and how the entity determined the income tax effect

An explanation of any **changes** in how the entity calculates its MPMs or which MPMs it provides

Example of MPM reconciliation in the notes

Adjusted operating profit (MPM)	52,870	Tax	NCI
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;
- 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

Improvements compared to current situation

Location	Management performance measures and related disclosures would be in a single location* in the notes to the financial statements, rather than scattered across public communications or on the face.
Audit	Including MPMs in financial statements is expected to bring such measures into the scope of audit.
Content of disclosures	The proposed disclosure requirements are similar to existing regulatory guidance. However, the disclosure of tax & NCI effects is likely to be new.
Consistency across countries	Management performance measures would be subject to the same requirements regardless of the entity's jurisdiction.

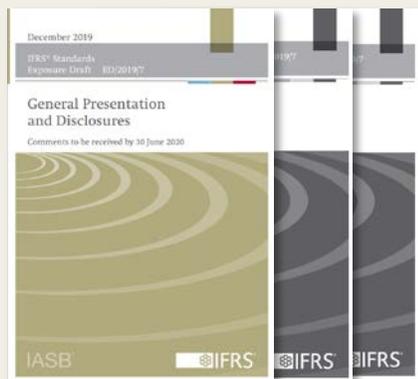
*Measures that do not meet the definition of an MPM (see previous slide) would not be affected by the proposals.

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- [Exposure Draft](#)
 - [Basis for Conclusions](#)
 - [Illustrative Examples](#)
- and a comparison of proposals with requirements of IAS 1



[Snapshot](#)



[Webinars on the Exposure Draft](#) * (also available on our [YouTube channel](#))



[Video](#) of IASB Chairman introducing the proposals

* Also available in Japanese, Chinese, Portuguese, Korean and Spanish

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