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.
Before we start

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.

The views expressed are those of the presenters, not necessarily those of the International Accounting Standards Board (Board) or the IFRS Foundation.

To ask a question, type it into the designated text box on your screen and click ‘submit’. You can submit questions at any time during the presentation. We’ll try to answer them at the end of the presentation.
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**: Agenda Consultation identified the project as a priority
- **2016-2019**: Board discussions to develop Exposure Draft
- **Q4 2019**: Exposure Draft published for public comment
- **Q1–Q3 2020**: Comment period (ends 30 September*)
- **Q4 2020**: Board starts redeliberations

*Comment period extended from June 2020 due to covid pandemic.*
# Project responds to investor needs

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

*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

- Adjusted profit: 33%
- Adjusted operating profit: 29%
- Adjusted EBITDA: 20%
- Adjusted EBIT: 11%

% of companies using measure in annual report

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

- No: 70%
- Yes, with detailed tax effects: 11%
- Yes, with limited or no information on tax effects: 19%
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**
  - 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
  - (Sub)totals of income and expenses
  - Other measures that are not subtotals of income/expenses
    - For example:
      - Free cash flow
      - Return on equity
      - Net debt
      - Same-store sales
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.
**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

<table>
<thead>
<tr>
<th>A <strong>reconciliation</strong> between the MPM and the most directly comparable subtotal or total specified by IFRS Standards</th>
</tr>
</thead>
</table>
| 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 |
| 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 |
| 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

<table>
<thead>
<tr>
<th>Adjusted operating profit (MPM)</th>
<th>52,870</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restructuring in Country X</td>
<td>(5,400)</td>
</tr>
<tr>
<td>Revenue adjustment</td>
<td>(6,200)</td>
</tr>
<tr>
<td><strong>Operating profit (IFRS-specified)</strong></td>
<td><strong>41,270</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tax</th>
<th>NCI</th>
</tr>
</thead>
<tbody>
<tr>
<td>900</td>
<td>(1,020)</td>
</tr>
<tr>
<td>1,550</td>
<td>-</td>
</tr>
</tbody>
</table>

**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

<table>
<thead>
<tr>
<th>Location</th>
<th>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.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit</td>
<td>Including MPMs in financial statements is expected to bring such measures into the scope of audit.</td>
</tr>
<tr>
<td>Content of disclosures</td>
<td>The proposed disclosure requirements are similar to existing regulatory guidance. However, the disclosure of tax &amp; NCI effects is likely to be new.</td>
</tr>
<tr>
<td>Consistency across countries</td>
<td>Management performance measures would be subject to the same requirements regardless of the entity’s jurisdiction.</td>
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</tbody>
</table>

*Measures that do not meet the definition of an MPM (see previous slide) would not be affected by the proposals.*
Polling and Q&A
Published materials

- Exposure Draft
- Basis for Conclusions
- Illustrative Examples and a comparison of proposals with requirements of IAS 1

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