



Better communication

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Aims of this session

- To **update members** on the Board's **better communication** in financial reporting theme
- Help members better understand **how the IFRS Taxonomy and the discussions today fit in with the better communication theme**

Better Communication in Financial Reporting

Disclosure
Initiative

(including principles of
disclosure)

Primary
Financial
Statements

IFRS
Taxonomy

Content and organisation of the content

Content delivery

- Review of how advances in technology may influence financial reporting, standard-setting and the IFRS Taxonomy.
 - Formative stage: recruit a digital lead and research current landscape
 - Next stage: develop a digital strategy
- The Board is reviewing how to respond to the feedback on the **Principles of Disclosure** discussion paper that technology should be considered more in developing disclosure principles— discussed later today, see Agenda Paper 2

Primary financial statements

Primary Financial Statements

Topics to explore

Statement(s) of financial performance



Statement of cash flows



Statement of financial position

Statement of changes in equity



- ✓ Requiring EBIT subtotal
- ✓ Requiring 'income/expenses from investments' category
- ✓ Providing guidance on presentation of management performance measure and alternative EPS
- ✓ Better ways to communicate OCI

- ✓ Eliminating classification options (interest/dividends)
- ✓ (Not) aligning the operating section between the statements of cash flows and financial performance
- ✓ Requiring a consistent starting point for the indirect method

- ✗ No planned change, except for templates and greater disaggregation
- ✓ Project on financial instruments with characteristics of equity looks at some issues

✓ Developing templates for primary financial statements

✓ Achieving greater disaggregation

Proposed—Structure of the Statement(s) of Financial Performance

Revenue	10,000
Cost of goods sold	<u>-4,000</u>
Gross profit	6,000
Selling, general and admin costs	<u>-2,000</u>
Management performance measure	4,000
Restructuring expenses for the closure of Factory A	<u>-1,000</u>
Profit before investing, financing and income tax	3,000
Share of profit of non-integral associate	250
Other income from investments	50
Profit before financing and income tax	3,300
Interest income from cash and cash equivalents calculated using effective interest method	80
Other income from cash and cash equivalents and financing activities	20
Expenses from financing activities	-1000
Other finance income	50
Other finance expense	<u>-350</u>
Pre-tax profit	2,100

Two subtotals facilitate comparisons between entities

Income or expenses from investments

Finance income/expenses

Proposed—Management performance measure

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Revenue	10,000
Cost of goods sold	<u>-4,000</u>
Gross profit	6,000
Selling, general and admin costs (SG&A)	<u>-2,000</u>
Management performance measure	4,000
Restructuring expenses for the closure of Factory A	<u>-1,000</u>
Profit before investing, financing and income tax	3,000
Share of profit of non-integral associate	250
Other income from investments	50
Profit before financing and income tax	3,300
Interest income from cash and cash equivalents calculated using effective interest method	80
Other income from cash and cash equivalents and financing activities	20
Expenses from financing activities	-1000
Other finance income	50
Other finance expense	<u>-350</u>
Pre-tax profit	2,100

Provides **flexibility** for management to communicate progress towards its business objective/strategy

Presented as a **subtotal** if it fits in the proposed structure of the statement(s) of financial performance

Management performance measure in separate reconciliation in notes

The management performance measure is presented in a **separate reconciliation in the notes** if it does not fit as a subtotal in the statement(s) of financial performance

Management performance measure reconciliation (extract from notes)	
Profit before investing, financing and income tax	3,000
Restructuring expenses for the closure of Factory A	1,000
Net interest income on net defined benefit assets (part of other finance income)	50
Management performance measure	<u>4,050</u>

Reconciled to most appropriate subtotal or total required by IFRS Standards

This management performance measure does not fit the structure of the statement(s) of financial performance: it adjusts for an item of finance income or expense

- Improving the structure of the Primary Financial Statements should **help investors in their use of structured electronic financial reports.**
For example:
 - the consistent presentation and tagging of subtotals makes it possible to screen a large number of companies in a cost-efficient manner
 - tagging reconciliations makes it possible to quickly identify differences in the components of a reconciliation over time

IFRS Taxonomy activities

IFRS Taxonomy should reflect the presentation and disclosure requirements of IFRS Standards and related common reporting practice in a timely and accurate manner using the most appropriate data model

The impact of new or amended IFRS Standards on the IFRS Taxonomy in the next 12 months will be limited (see next slide)

The focus of the IFRS Taxonomy team will be on common reporting practice—discussed later today, see Agenda Paper 5

Topic	Expected publication date	Taxonomy impact
<i>Conceptual Framework for Financial Reporting</i>	March 2018	Limited to none
Classification of Liabilities (Amendments to IAS 1)	H2 2018	Limited to none
Definition of a Business (Amendments to IFRS 3)	Q2 2018	Limited to none

We support regulators and preparers in their use and understanding of the IFRS Taxonomy to provide investors with high-quality globally-consistent tagged IFRS disclosures

We have a wide range of supporting materials, including *Using the IFRS Taxonomy—A preparer's guide*

Any quick wins for 2018?
—discussed later today, see Agenda Paper 4

Address financial statement preparers and users' concerns about communicating entity-specific facts and circumstances effectively and efficiently in a structured electronic report

The staff has been working with XBRL International and the European Securities Market Authority on entity-specific disclosures—discussed later today, see Agenda Paper 6

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