STAFF PAPER

February 2018

IASB® Meeting

Project	**Primary Financial Statements**
Paper topic	Cover note

CONTACT(S) Michelle Fisher mfisher@ifrs.org +44 (0)20 7246 6918

Purpose of the meeting

1. At this meeting we will discuss the following topics:
   (a) clarifying the requirements for management performance measures (MPMs);
   (b) requirements for management-defined adjusted earnings per share measures ('adjusted EPS') in the financial statements; and
   (c) whether we should require separate presentation of the 'investing' cash flows of 'integral' and 'non-integral' associates and joint ventures in the statement of cash flows.

Papers for this meeting

2. Agenda papers for this meeting:
   (a) **Agenda Paper 21** this agenda paper provides an index of papers for this meeting and sets out our planned next steps. It also provides a summary of the Board's tentative decisions to date in the project.

(b) **Agenda Paper 21A** sets out the staff's proposals for clarifying the requirements for management performance measures (MPMs).

(c) **Agenda Paper 21B** sets out the staff's proposals for management-defined adjusted earnings per share measures ('adjusted EPS').

(d) **Agenda Paper 21C** sets out the staff's proposals for presentation of the 'investing' cash flows of 'integral' and 'non-integral' associates and joint ventures in the statement of cash flows.

Next steps

3. At future Board meetings, we plan to discuss:

(a) how to develop our proposed structure for the statement(s) of financial performance further to address more complex scenarios, for example entities providing financial services.

(b) further development of principles of aggregation and disaggregation, including considering thresholds and the need for additional minimum line items.

(c) ways to address the feedback received on Section 5—*Use of performance measures in the financial statements* of the Discussion Paper *Disclosure Initiative—Principles of Disclosure*.

(d) development of illustrative examples/templates for the primary financial statements for a few industries.

Topic	Tentative decisions	AP ref.
General	**December 2016**	
	The Board tentatively decided to focus on targeted improvements to the statement(s) of financial performance and to the statement of cash flows. All 11 Board members agreed with this decision. The Board will decide at a later stage of the project whether it will issue a Discussion Paper or an Exposure Draft as the first due process output of the project. All 11 Board members agreed with this decision.	21
Statement(s) of financial performance—general	**December 2016**	
	Board members tentatively decided, by consensus, to explore the following topics: a. requiring additional subtotal(s) in the statement(s) of financial performance—earnings before interest and tax (EBIT) and/or operating profit; b. removing some of the options for presentation of income and expenses in existing IFRS Standards (eg presentation of net interest cost on the net defined benefit liability); c. providing guidance on the use of performance measures, including separate presentation of non-recurring, unusual or infrequently occurring items; and d. better ways to communicate information about other comprehensive income (OCI).	21A
	September 2017	
	The Board tentatively decided to prioritise introducing into the statement(s) of financial performance subtotals that facilitate comparisons between entities, such as EBIT, over introducing a management-performance measure subtotal. At a future meeting, the Board will discuss how a management-performance measure could be included in the financial statements. All Board members agreed with this decision.	21A
Statement(s) of financial performance—EBIT and finance income and expenses	**March 2017**	
	The Board agreed (by consensus) that the staff should continue to explore: a. requiring the presentation of an EBIT subtotal in the statement(s) of financial performance; b. defining EBIT as profit before finance income/expenses and tax; and c. describing finance income/expenses as income/expenses related to the entity's capital structure. The Board asked the staff to consider: a. how to define an entity's capital structure; and b. whether additional guidance would be needed on the treatment of particular items of income and expense (for example, the net interest on net defined benefit liabilities and income/expenses from investments).	21A

<table>
<tr><th>Topic</th><th>Tentative decisions</th><th>AP ref.</th></tr>
<tr><td></td><td colspan="2">September 2017</td></tr>
<tr><td></td><td>The Board tentatively decided that, if it introduces both an investing category and an EBIT (or profit before financing and income tax) subtotal, finance income or expenses should consist of the following separate line items in the statement(s) of financial performance:
a. 'income related to capital structure';
b. 'expenses related to capital structure';
c. 'interest income on a net defined benefit asset or a net asset that arises when a liability not part of an entity’s capital structure qualifies for offset with an asset'; and
d. 'interest expenses on liabilities not part of an entity’s capital structure'.
Ten of 14 Board members agreed and four disagreed with this decision</td><td>21A</td></tr>
<tr><td></td><td colspan="2">November 2017</td></tr>
<tr><td></td><td>The Board tentatively decided to:
a. use ‘cash and cash equivalents’ in the definition of ‘finance income/expenses’ as a proxy for cash and temporary investments of excess cash. Ten Board members agreed and four members disagreed with this decision.
b. require that ‘finance income/expenses’ consist of the following five line items:
i. ‘interest income from cash and cash equivalents calculated using the effective interest method’;
ii. ‘other income from cash, cash equivalents and financing activities’;
iii. ‘expenses from financing activities’;
iv. ‘other finance income’; and
v. ‘other finance expenses’.
Twelve Board members agreed and two members disagreed with this decision. Some Board members made some drafting suggestions for the line items. The Board also noted that a separate line item for impairment of cash and cash equivalents may be needed, if material.

c. clarify the current description of ‘financing activities’ in IAS 7 Statement of Cash Flows by indicating that a financing activity involves:
i. the receipt or use of a resource from a provider of finance (or provision of credit).
ii. the expectation that the resource will be returned to the provider of finance.
iii. the expectation that the provider of finance will be appropriately compensated through the payment of a finance charge. The finance charge is dependent on both the amount of the credit and its duration.
All fourteen Board members agreed. Some Board members made drafting suggestions.</td><td>21B</td></tr>
</table>

Topic	Tentative decisions	AP ref.
Statement(s) of financial performance—Management performance measure	**March 2017**	
	The Board agreed (by consensus) that the staff should continue to explore: a. requiring the presentation of a management operating performance measure, rather than seeking to define operating profit, in the statement(s) of financial performance; b. allowing items to be excluded from the management operating performance measure as long as the subtotal meets the requirements in existing paragraphs 85, 85A and 85B of IAS 1 *Presentation of Financial Statements*; and c. requiring additional disclosures to provide transparency around presentation of the management operating performance measure.	21B
	December 2017	
	The Board tentatively decided that entities should be required to identify a management performance measure and: a. present that measure as a subtotal in the statement(s) of financial performance, if it fits in the Board-proposed structure for the statement(s) and satisfies the requirements in IAS 1 for subtotals. b. otherwise provide the management performance measure in a separate reconciliation of that measure with a measure that is defined in IFRS Standards. Thirteen Board members agreed with this decision. One member was absent. The Board will continue its discussions about targeted improvements to the statement(s) of financial performance at a future meeting, including discussing: a. the circumstances in which a management performance measure would be required; and b. whether the reconciliation of the management performance measure with the IFRS defined measure should be presented below the statement of financial performance or disclosed in the notes.	21A
	January 2018	
	The Board tentatively decided that: a. all entities should specify their key performance measure(s) in the financial statements; b. if any of these measures are not specified or defined in IFRS Standards, an entity should identify such measures as management performance measures; and c. the key performance measures identified in the financial statements should include, as a minimum, the key performance measures communicated in the annual report. All 14 Board members agreed with this decision subject to the staff further clarifying when a measure is ‘specified or defined in IFRS Standards’ and which types of measures would be considered ‘key performance measures’.	21A

Topic	Tentative decisions	AP ref.
	In December 2017 the Board tentatively decided that entities should present a management performance measure as a subtotal in the statement(s) of financial performance, if it fits in the Board's proposed structure for the statement(s) and satisfies the requirements in IAS 1 Presentation of Financial Statements for subtotals. At this Board meeting the Board tentatively decided: a. that if a management performance measure does not fit in the statement(s) of financial performance, a separate reconciliation should be disclosed in the notes between the management performance measure and the most appropriate measure specified or defined in IFRS Standards. Eleven Board members agreed and three Board members disagreed with this decision. b. that there should be no specific constraints on management performance measures provided in a separate reconciliation. Thirteen Board members agreed and one Board member disagreed with this decision. c. that the following disclosures should be required for each management performance measure (including a management performance measure presented as a subtotal in the statement(s) of financial performance): i. a description of why the management performance measure provides management's view of performance, including an explanation of how the management performance measure has been calculated and why. Thirteen Board members agreed and one Board member disagreed with this decision. ii. sufficient explanation, if there is a change in how the management performance measure is calculated during the year, to help users understand the reasons for and effect of the change. Thirteen Board members agreed and one Board member disagreed with this decision The Board decided not to require a five-year historical summary showing, for each year, the calculation of the management performance measure. Eight Board members agreed and six Board members disagreed with this decision. d. that the reconciliation between the management performance measure and the most appropriate measure specified or defined in IFRS Standards should be provided separately from the operating segment information disclosed in accordance with IFRS 8 *Operating Segments*. However, entities would not be prohibited from also including management performance measures within the operating segment information. Furthermore, the following disclosures would be required: i. an explanation of how the management performance measure differs from the total of the measures of profit or loss for the reportable segments; and ii. if none of the management performance measures fits into the operating segment information, an explanation of why this is the case. Eleven Board members agreed and three Board members disagreed with this decision. e. not to specify in IFRS Standards that the management performance measures are not measures specified or defined in IFRS Standards. All 14 Board members agreed with this decision.	

Topic	Tentative decisions	AP ref.
Statement(s) of financial performance—Investing category	**September 2017**	
	The Board agreed without voting to explore the introduction of an investing category into the statement(s) of financial performance.	21A
	November 2017	
	The Board tentatively decided: a. to relabel the ‘investing’ category as ‘income/expenses from investments’. Twelve Board members agreed and one member disagreed with this decision. One member was absent. b. to define ‘income/expenses from investments’ using a principle-based approach as ‘income/expenses from assets that generate a return individually and largely independently of other resources held by the entity’. Eleven Board members agreed and three members disagreed with this decision. c. to provide a list of some items that would typically be treated as ‘investing’ and a list of some items that would typically not be treated as ‘investing’ for non-financial entities. Thirteen Board members agreed and one member disagreed with this decision. d. not to label the subtotal before the ‘income/expenses from investments’ category as ‘operating profit’. Ten Board members agreed and four disagreed with this decision. The Board did not to reach a decision on the presentation of the share of the profit or loss of associates and joint ventures accounted for using the equity method. The Board therefore directed the staff to include in the project’s first due-process document a discussion of the different possible approaches. That discussion would, in particular, consider the following two approaches: a. including the share of the profit or loss of all associates and joint ventures accounted for using the equity method within a single category. b. including the share of profit or loss of integral associates or joint ventures above the ‘income/expenses from investments’ category; and the share of profit or loss of non-integral associates or joint ventures within the ‘income/expenses from investments’ category.	21A
	January 2018	
	The Board tentatively decided that: a. entities should be required to present the results of ‘integral’ associates and joint ventures separately from those of ‘non-integral’ associates and joint ventures. Twelve Board members agreed and two Board members disagreed with this decision. b. the project’s first due-process document should: i. use the Board’s proposed definition of ‘income/expenses from investments’ (from the November 2017 Board meeting) as the basis for the split between integral and non-integral investments in associates or joint ventures, and include a non-exhaustive list of indicators that could be used in making this distinction. Nine Board members agreed and five Board members disagreed with this decision. ii. propose the presentation in the statement(s) of financial performance of the share of profit or loss of integral associates or joint ventures as a line item above the ‘income/expenses from investments’ category and require a new subtotal above that line item. Twelve Board members agreed and two Board members disagreed with this decision.	21B

Topic	Tentative decisions	AP ref.
	iii. discuss the alternative approaches considered by the Board for presenting the share of the profit or loss of integral associates and joint ventures, both within and outside the 'income/expenses from investments' category, and the Board's reasons for rejecting those approaches. All 14 Board members agreed.	
Statement(s) of financial performance—OCI	**November 2017**	
	The Board tentatively decided to rename the two categories in the OCI section of the statement(s) of financial performance as follows: a. 'remeasurements reported outside profit or loss' (currently 'OCI items that will not be reclassified subsequently to profit or loss'); and b. 'income and expenses to be included in profit or loss in the future' (currently 'OCI items that will be reclassified subsequently to profit or loss'). Eight of fourteen Board members agreed and six disagreed with this decision. The Board tentatively decided not to introduce a new subtotal between the two categories in the OCI section of the statement(s) of financial performance called 'income after remeasurements reported outside profit or loss'. Twelve of fourteen Board members agreed with this decision and two disagreed. The Board tentatively decided: a. that the staff should explore whether there is a demand to remove the following presentation options in IAS 1 for OCI: i. presenting items of OCI either net of related tax effects, or before related tax effects (paragraph 91 of IAS 1); and ii. presenting reclassification adjustments in the statement(s) of financial performance or in the notes (paragraph 94 of IAS 1). All Board members agreed with this decision. b. not to develop separate guidance or educational material on the presentation of other comprehensive income for entities, but to consider both profit or loss and OCI when developing proposals for better aggregation/disaggregation and additional minimum line items. Thirteen of fourteen Board members agreed with this decision and one abstained. c. not to develop educational material for investors in the form of case studies that illustrate why it is important for users of financial statements to consider items of OCI in their analysis of companies. All Board members agreed with this decision.	21C
Statement of cash flows	**December 2016**	
	The Board tentatively decided to explore the following topics: a. elimination of options for the classification of the cash effects of interest and dividends in the statement of cash flows. All 11 Board members agreed with this decision. b. alignment of the operating section across the statement of cash flows and the statement(s) of financial performance. All 11 Board members agreed with this decision. c. requiring a consistent starting point for the indirect reconciliation of cash flows. All 11 Board members agreed with this decision.	21B

Topic	Tentative decisions	AP ref.
	December 2017	
	For non-financial entities, the Board tentatively decided to: a. remove from IAS 7 options for the classification of interest and dividends paid and of interest and dividends received and prescribe a single classification for each of these items. Thirteen Board members agreed with this decision. One member was absent. b. clarify that: i. cash flows arising from interest incurred on financing activities should be classified as financing cash flows. Thirteen Board members agreed with this decision. One member was absent. ii. cash flows arising from interest paid that is capitalised as part of the cost of an asset should be classified as financing cash flows. Thirteen Board members agreed with this decision. One member was absent. iii. cash flows arising from dividends paid should be classified as financing cash flows. Thirteen Board members agreed with this decision. One member was absent. c. amend the definition of 'investing activities' in IAS 7 to clarify that interest and dividends received should be classified as investing cash flows. Twelve Board members agreed and one Board member disagreed with this decision. One member was absent. The Board will consider the classification in the statement of cash flows of dividends received from investments in associates and joint ventures when it discusses whether the profit or loss of integral associates and joint ventures should be part of the income or expenses from investments in the statement(s) of financial performance.	21C
	The Board tentatively decided: a. to require a consistent subtotal as the starting point for the indirect reconciliation of cash flows from operating activities. This subtotal should be 'profit before investing, financing and income tax'. Thirteen Board members agreed with this decision. One member was absent. b. not to align the operating section of the statement of cash flows with a corresponding section in the statement(s) of financial performance. Thirteen Board members agreed with this decision. One member was absent. c. not to make any other further improvements to the statement of cash flows, besides the improvements mentioned in (a) and (b) above. Ten Board members agreed and three Board members disagreed with this decision. One member was absent.	21D
Principles of aggregation and development of templates	**December 2016**	
	The Board tentatively decided to explore the following topics: a. development of templates for the statement(s) of financial performance, the statement of cash flows and the statement of financial position for a small number of industries. Eight of 11 Board members agreed and three members disagreed with this decision. b. development of a principle for aggregating and disaggregating items in the primary financial statements. All 11 Board members agreed with this decision. The Board tentatively decided not to consider targeted improvements to the statement of financial position unless work on other areas of the primary financial statements identifies possible improvements to that statement. All 11 Board members agreed with this decision.	21B

Topic	Tentative decisions	AP ref.
	Additionally, the Board tentatively decided that segment reporting or the presentation of discontinued operations should not be part of the scope of the project. All 11 Board members agreed with this decision.	
	March 2017	
	The Board tentatively decided to develop, along the lines suggested in Agenda Paper 21C: a. principles for aggregation and disaggregation in the financial statements; b. definitions of the notions ‘classification’, ‘aggregation’ and ‘disaggregation; and c. guidance on the steps involved in applying ‘classification’, ‘aggregation’ and ‘disaggregation’ when preparing financial statements. Ten Board members agreed and two disagreed with this decision. The Board tentatively decided to explore providing more guidance on aggregation characteristics. Eleven Board members agreed and one disagreed.	21C
	September 2017	
	The Board tentatively decided to: a. describe the 'nature of expense' method and the 'function of expense' method used to analyse expenses required by paragraph 99 of IAS 1. Fourteen Board members agreed. b. continue to require an entity to provide an analysis of expenses using the methodology, either by-function or by-nature, that provides the most useful information to users. Twelve of 14 Board members agreed with this decision and one member disagreed. One member was absent. c. develop criteria that entities could follow to determine whether a by-function or by-nature methodology provides the most useful information to users. One of those criteria would be that a function of expense analysis would not be appropriate if an entity is unable to allocate natural components to the functions presented on a consistent and non-arbitrary basis. Ten of 14 Board members agreed with this decision and three members disagreed. One member was absent. d. provide no requirement for entities that use the ‘nature of expense’ method to provide additional information using the ‘function of expense’ method. Thirteen of 14 Board members agreed with this decision and one member disagreed. e. require an entity to: i. present its primary analysis of expenses in the statement(s) of financial performance; and ii. disclose in a single note any additional information required about expenses (ie an analysis by nature when an entity uses a 'function of expense' method). Fourteen Board members agreed.	21B