IFRS

STAFF PAPER

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IASB® Meeting

Project	**Primary Financial Statements**		
Paper topic	Preliminary analysis on applying project proposals to financial entities		
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Purpose of this paper

1. This Agenda Paper discusses:

    (a) the staff's preliminary analysis of which of the tentative decisions made to-date for non-financial entities could apply, with little or no change, to financial entities (Phase 1 described in Agenda Paper 21); and

    (b) the staff's preliminary analysis of alternative approaches we could consider for those project areas in which the tentative decisions made to-date would have to be adjusted for financial entities.

2. This Agenda Paper does not discuss whether the Board's tentative decisions about the presentation of information about associates and joint ventures could apply without adjustment to financial entities. The approach to this topic for financial entities depends on the Boards' approach to the income and expenses from investments (see paragraphs 57-63). Also, in light of feedback received from the Board's user and preparer advisory groups, the staff plan to bring the presentation of information about associates and joint ventures back to the Board.

3. In this paper, by financial entities we mean:

    (a) conglomerates with captive finance or banking subsidiaries;

    (b) financial institutions, including commercial banks; and

(c) investment companies, including investment entities and investment property companies[1].

4. This paper does not discuss application of the project proposals to insurers. The staff note that there is no intention to change the requirements in individual IFRS Standards, for example when those Standards define what is considered financing, such as in IFRS 17 *Insurance Contracts*. The staff will review IFRS Standards for such requirements and analyse their implications. We will bring this analysis to a future Board meeting.

5. This paper does not ask the Board to make any decisions. We have however included questions for discussion by the Board that are intended to help us to identify what further analysis we need to bring to the Board.

Overview

6. This paper is structured as follows:

   (a) Background – the project scope (paragraphs 7 - 14);

   (b) Which of the tentative decisions made to-date for non-financial entities could apply, with little or no change, to financial entities (paragraphs 15 - 44)?

      (i) management performance measures (paragraphs 17-26);

      (ii) aggregation and disaggregation (paragraphs 27 – 40);

      (iii) other comprehensive income (paragraphs 41 – 44); and

      (iv) question for the Board

   (c) Which alternative approaches to consider in project areas for which tentative decisions made to-date would have to be adjusted for financial entities (paragraphs 45 - 67)?

      (i) EBIT subtotal (paragraphs 47 – 56);

      (ii) income and expenses from investments (paragraphs 57 –63);

[1] We acknowledge that investment property companies are not necessarily ‘financial entities’. However, because their activities do not fit neatly within our proposed structure for the statement(s) of financial performance, we are discussing them together with financial entities.

(iii) statement of cash flows (paragraphs 64 – 67); and

(d) Appendix A - Approach to financial entities in project areas that the Board has not yet discussed (paragraphs A1 – A2).

Background – the project scope

7. At its December 2016 meeting the Board tentatively decided to focus the project on targeted improvements, mainly to the presentation of the statement(s) of financial performance, rather than a fundamental revision of the presentation of all the primary financial statements.

8. For the statement(s) of financial performance, the Board tentatively decided to explore the following topics:

   (a) requiring additional subtotal(s) in the statement(s) of financial performance;

   (b) removing some of the options for presentation of income and expenses in existing IFRS Standards (for example, presentation of net interest cost on a net defined benefit liability); and

   (c) providing guidance on the use of performance measures.

9. The Board decided not to develop guidance on which items of income or expense should be reported in OCI or when such items should be recycled as it had developed high-level guidance on this topic as part of its *Conceptual Framework*. However, the Board tentatively decided to explore better ways of communicating information about OCI.

10. For the statement of cash flows 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;

   (b) alignment of the operating section across the statement of cash flows and the statement(s) of financial performance; and

   (c) requiring a consistent starting point for the indirect reconciliation of cash flows.

11. The Board also tentatively decided to consider:

    (a) development of principles and guidance for aggregating and disaggregating items in the financial statements; and

    (b) development of templates for the primary financial statements for a small number of industries.

12. 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 identified possible improvements to that statement.

13. In addition, the Board decided not to consider changes to the following areas as part of this project:

    (a) the statement of changes in equity. The Board has a separate project on Financial Instruments with the Characteristics of Equity, which may consider changes to that statement.

    (b) segment reporting. The Board decided not to consider segment reporting as part of this project because it would significantly increase the scope of the project, potentially delaying improvements to the structure and content of the primary financial statements.

    (c) the presentation of discontinued operations.

14. In order to simplify the discussion of topics within the scope of the project, we have initially focused on the presentation of information in the primary financial statements of non-financial entities. This paper discusses whether and how the tentative decisions made to date could apply to financial entities.

Which of the tentative decisions made to-date could apply, without adjustment, to financial entities?

15. The following sub-sections present the staff's preliminary analysis of the tentative decisions made to-date that could apply, without adjustment, to all financial entities. This includes the following project areas:

    (a) management performance measures (paragraphs 17 – 26);

    (b) aggregation and disaggregation (paragraphs 27 – 40); and

(c) other comprehensive income (paragraphs 41 – 44).

16. We have organised the discussion in each of the areas as follows:

(a) What was the objective of the Board's proposal for non-financial entities and what were the tentative decisions?

(b) Would the application of the Board's tentative decisions result in relevant information for financial entities?

In this section we assess whether the application of the Board's proposals to financial entities would meet the objective of the proposals and consequently whether it would result in relevant information for financial entities. Where applicable, we consider different implications for different types of financial entities.

Management performance measures

Objective and tentative decisions for non-financial entities

17. Users have told us that alternative performance measures can provide relevant information. However, they find that there is often a lack of transparency around how entities calculate these measures and why the measures are presented. In addition, because these measures are often presented only outside the financial statements, they are not subject to audit and the quality of the disclosures provided about these measures depends on the requirements of regulators, which vary by jurisdiction.

18. Consequently, the Board has tentatively decided that all non-financial entities should identify a measure (or measures) of profit or comprehensive income that, in the view of management, communicates to users the financial performance of the entity. In many cases that measure will be a subtotal or total specified by IFRS Standards (for example, profit or loss). However, when entities identify additional measure(s) that complement the subtotals or totals specified by IFRS Standards, the measure is a 'management performance measure'. Management performance measures are subject to a number of disclosure requirements, including a reconciliation between that measure and the most directly comparable subtotal or total specifically required by IFRS Standards.

19. The Board tentatively decided that there should be no specific constraints on what could be identified as a management performance measure because any constraints could prevent management from providing their view of performance.

20. The Board also discussed whether to require entities to disclose an alternative EPS figure that is calculated consistently with the management performance measure. However, the Board tentatively decided instead to require entities to simply disclose information about the tax and non-controlling interest effects of each adjustment made in arriving at their management performance measures.

Would the application of the Board's tentative decisions result in relevant information for financial entities?

21. The objective of allowing entities to disclose entity-specific measures of performance in IFRS financial statements is to increase the transparency and quality of entity-specific measures of performance that users have told us can provide relevant information. Financial entities, similar to non-financial entities, disclose measures of performance that are not defined in IFRS Standards and there can be a lack of transparency around how entities calculate these measures, for example which expenses are excluded from adjusted net income or operating profit.

22. The Board has placed no constraints on what could be identified as a management performance measure and, as such, financial entities can present measures that the management considers that are relevant to the entity, in addition to subtotals and totals specified in IFRS Standards. Related disclosure requirements will provide transparency to users of financial statements and enable them to decide how best to use the information in their analysis.

23. Consequently, the staff thinks that the proposals for management performance measures could apply to financial entities.

24. However, under these proposals, measures of performance like net interest income, commonly used by some financial entities, would meet the definition of a management performance measure. This would mean these entities would need to provide accompanying disclosures for these measures, which may not provide relevant information. This is because, whilst users want more transparency around how such measures are calculated, they may not find the information included in the reconciliation between the management performance measure and most directly

comparable subtotal or total specifically required by IFRS Standards relevant (for example information about the tax and non-controlling interest effects of adjustments made).

25. The Board has acknowledged this concern in relation to gross profit for non-financial entities and has tentatively decided not to treat gross profit as a management performance measure. To achieve this, the Board has proposed to provide a high-level definition of gross profit and specifically refer to the gross profit subtotal in IAS 1. A similar approach could be adopted for commonly used performance measures such as net interest margin. Alternatively, paragraph 56 discusses whether, as an alternative to providing an EBIT subtotal, some financial entities should be required to present other subtotals such as net interest income. This approach would probably require a detailed description of what is included in that sub-total. Defining net interest income could help address questions relating to the presentation of interest, such as those raised by respondents to the tentative Agenda Decision published bv IFRS Interpretations Committee in March 2018.[2] However, defining net interest income could be a significant exercise.

26. We plan to consider this issue in future Board discussions on alternative approaches to subtotals for financial entities.

Aggregation and disaggregation – principles of disaggregation in the financial statements

Objective and tentative decisions for non-financial entities

27. In response to users' requests for greater disaggregation of information, the Board has tentatively decided to develop additional guidance on aggregation and disaggregation including:

(a) principles for aggregation and disaggregation in the financial statements;

(b) definitions of the notions 'classification', 'aggregation' and 'disaggregation; and

[2] March 2018 Agenda Decision – Presentation of interest revenue for particular financial instruments (IFRS 9 *Financial Instruments* and IAS 1 *Presentation of Financial Statements*)

(c) guidance on the steps involved in applying ‘classification’, ‘aggregation’ and ‘disaggregation’ when preparing financial statements. The Board is continuing considerations of how to help entities identify which characteristics are most relevant when disaggregating information.

28. The Board discussed the idea of introducing quantitative thresholds or rebuttable presumptions in order to promote more disaggregation of financial information in the financial statements—for example, requiring disaggregation of any expenses that exceed X% of a line item total. Although some Board members supported this approach, it was ultimately rejected because there were concerns that establishing such thresholds could be seen as undermining the concept of materiality and might be challenging to implement due to the level of judgement required. Instead, the Board instructed the staff to develop guidance that could be used to encourage greater disaggregation and better labelling of residual or ‘other’ balances. The Board will consider this guidance at a future meeting.

29. The Board has also tentatively decided to provide a principle for determining whether information should be presented in the primary financial statements or in the notes. That principle will be based on the description in the Discussion Paper *Disclosure Initiative: Principles of Disclosure* of the respective roles of the primary financial statements and notes included.

Would the application of the Board’s tentative decisions result in relevant information for financial entities?

30. In setting out principles and providing guidance on disaggregation in the financial statements, the Board is seeking to improve the way in which entities disaggregate their financial information thereby increasing the usefulness of that information to users of financial statements. This objective applies equally to both financial entities and non-financial entities.

31. The Board’s proposed guidance centres around grouping items with similar characteristics and disaggregating items with different characteristics, as well as deciding where to present them. These principles and related guidance would also help financial entities provide relevant information and may be particularly useful for financial entities as users have told us that the disaggregation of information about financial instruments can be poor.

32. The staff therefore thinks that the proposals for principles of aggregation and disaggregation for non-financial entities could apply, without adjustment, to financial entities.

Aggregation and disaggregation –disaggregation of expenses by nature and by function

Objective and tentative decisions for non-financial entities

33. The Board has also tentatively decided to provide more guidance on disaggregation of expenses within the business profit subtotal in the statement(s) of financial performance including to:

(a) describe the 'nature of expense' method and the 'function of expense' method;

(b) 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;

(c) provide a list of factors to help entities determine whether a by-function or by-nature methodology provides the most useful information to users; and

(d) require an entity to present its primary analysis of expenses (function or nature) in the statement(s) of financial performance.

34. Feedback from users suggests that when an entity presents information by function, users also want information about the nature of the expenses. Consequently, the Board decided that entities that provide a functional analysis of expenses should disclose in a single note additional information about the nature of those expenses.

Would the application of the Board's tentative decisions result in relevant information for financial entities?

35. The Board is providing more guidance on classification of expenses by nature and by function in order to ensure that entities present the most useful classification of expenses in the primary financial statements. This should increase comparability between similar entities.

36. The following paragraphs consider implications of the guidance for financial entities, based on staff's preliminary research on content and structure of statement of financial performance for financial entities, summarised in Agenda Paper 21B.

37. Financial entities such as banks tend to present an analysis of their expenses by nature.[3]If a natural analysis is the most useful then financial entities will continue to be able to provide such an analysis. The Board's proposed guidance considers industry practice as one of the factors to consider in determining which method is most useful, which would further support primary disaggregation by nature of expense for many financial entities.

38. Conglomerates that include a financing subsidiary use a number of different ways to present their analysis of expenses in the statement(s) of financial performance:

(a) presenting expenses by function, with an analysis by segment either in the statement(s) of financial performance or in the segment note;

(b) presenting separate sections for financial and non-financial activities in the statement(s) of financial performance, with financial activities analysed by nature and non-financial activities analysed by function; or

(c) presenting separate line items for each type of income or expense (for example, presenting line items for both non-financial revenue and financial revenue.

39. The Board's proposed guidance on disaggregation by nature or by function applies to expenses above the business profit subtotal. Depending on the approach to subtotals for financial entities (see paragraphs 47 – 63), financial entities may present income or expenses above the business profit subtotal that non-financial entities present below that subtotal (for example, gains or losses on assets measured at fair value through profit or loss). These income or expenses might not easily fit into a by function classification and it may be necessary to adjust the requirements on disaggregation to deal these types of income or expense.

[3] The staff have seen examples of functional line items such as 'general and administrative expenses' being used in an otherwise natural presentation of expenses presented by some banks. Our proposals would require these entities to provide a by nature analysis of these expenses.

40. The staff thinks that the proposals for disaggregation of expenses by nature and by function for non-financial entities could apply to financial entities, but need to be considered further together with the approaches to subtotals for financial entities. The proposals might need to be adjusted for application by more complex entities, including conglomerates. The staff is planning on doing further research in this area before bringing an analysis and recommendations to the Board.

Other comprehensive income

Objective and tentative decisions for non-financial entities

41. In order to better communicate information about income or expenses included in OCI, 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').

Would the application of the Board's tentative decisions result in relevant information for financial entities?

42. The Board's objective is to better communicate information about income and expenses that are included in OCI. This can be useful for all entities, including financial entities, that report items of income and expense in OCI.

43. The effect of the Board's tentative decision is to rename the categories of income and expense included in OCI. This proposed new labelling is equally relevant to all entities, including financial entities. It could arguably be more useful for financial entities than for non-financial entities because they are more likely to have large gains and losses reported in OCI.

44. The staff therefore thinks that the Board's tentative decisions for non-financial entities could apply, without adjustment, to financial entities.

Question for the Board

Question 1	
(a)	Does the Board have any comments or questions on staff's preliminary analysis of the following project areas:
(i)	aggregation and disaggregation including principles of aggregation and disaggregation, and classification of expenses by nature and by function.
(ii)	management performance measures; and
(iii)	other comprehensive income?
(b)	Does the Board have any comments or suggestions for further research and analysis by staff in these areas?

Alternative approaches to consider in project areas for which tentative decisions made to-date would need to be adjusted for financial entities

45. In the following sub-sections, we have presented preliminary staff analysis of the tentative decisions made to-date that would need to be adjusted for financial entities. This includes the following project areas:

    (a) EBIT subtotal (paragraphs 47 – 56);

    (b) income and expenses from investments (paragraphs 57 – 63); and

    (c) statement of cash flows (paragraphs 64 – 67).

46. We have organised the discussion in each of the areas as follows:

    (a) What was the objective of the Board's proposal for non-financial entities and the tentative decisions?

    (b) Would the application of the Board's tentative decisions result in relevant information for financial entities?

    In this section we assess whether the application of the Board's proposals to financial entities would meet the objective of the proposals and consequently whether it would result in relevant information for financial entities. Where applicable, we consider different implications for different types of financial entities.

(c) What alternative approaches could be considered?

This section lists some of the possible alternative approaches. The selection of an alternative approach will depend on whether the objective of the proposal for non-financial entities has the potential to provide relevant information for financial entities and whether there is a feasible approach that meets that objective. If the objective of the proposals is not deemed to result in useful information for financial entities, then it may be necessary to consider ways to scope out financial entities from the proposals for non-financial entities.

EBIT subtotal

Objective and tentative decisions for non-financial entities

47. In response to requests from users for more comparable subtotals in the statement(s) of financial performance, the Board tentatively decided to require non-financial entities to present an EBIT subtotal in the statement(s) of financial performance. The Board chose the EBIT subtotal because:

(a) it is commonly used by users to analyse the financial performance of a non-financial entity independently from how the entity is financed; and

(b) the Board considered EBIT would be easier to define than operating profit and users told us that it is unnecessary to define both operating profit and EBIT.

48. EBIT is defined as profit before finance income/expense and tax. In order to maximise the comparability of the EBIT subtotal across non-financial entities, the Board tentatively specified the line items that comprise finance income or expenses as follows:

(a) interest income from cash and cash equivalents calculated using the effective interest method;

(b) other income from cash, cash equivalents and financing activities;

(c) expenses from financing activities;

(d) other finance income (for example, unwinding of a discount on a defined benefit asset); and

(e) other finance expenses (ie unwinding of a discount on liabilities not arising from financing activities).

49. The Board tentatively decided to describe ‘financing activities’ as involving:

(a) the receipt or use of a resource from a provider of finance (or provision of credit).

(b) the expectation that the resource will be returned to the provider of finance.

(c) 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.

Would the application of the Board’s tentative decisions result in relevant information for financial entities?

50. The Board tentatively decided to require presentation of EBIT as it is a measure commonly presented by non-financial entities and used by investors. Investors use it because it aids comparisons of performance before the effect of how an entity is financed.

51. The staff have not found evidence that EBIT (regardless of how it is defined) is used for measuring the performance of financial entities, either as a measure of performance presented by financial entities[4] or as a measure used by investors in the analysis of financial performance. The staff therefore question whether such a measure would provide relevant information to users of financial statements about their performance.

52. Also, the description of EBIT as profit before financing activities implies that items presented below EBIT should not include items that are considered to be part of an entity’s main activities. Applying the Board’s proposals to financial entities would result in expenses such as interest expense being presented below the EBIT subtotal. For many financial institutions, paying interest expense is the entity’s main activity,

[4] The staff have seen examples of investment property companies presenting a measure akin to EBIT in the statement of financial performance. However, in the small sample we have looked at, the management, in the management discussion and analysis, does not seem to refer to this measure as a key measure of financial performance. The staff have also seen examples of EBIT presented as a measure of segment result for financial segment in a conglomerate, however this measure includes interest income and expense and is very similar to profit before tax. See Agenda Paper 21B for examples. The staff are continuing this research.

and interest expense is usually presented towards the top of the statement of financial performance. The staff have also seen examples of conglomerates that use EBIT and in those cases, interest income and interest expense from their financing arm is presented above the EBIT subtotal.g

53. The staff think that putting all interest expense below EBIT, for some financial entities, would not achieve the Board's objective of presenting the measure before effects of financing. Therefore, the staff conclude that the Board's tentative decisions on EBIT, without adjustment, would not provide relevant information to users of financial statements of some financial entities, and as such alternative approaches should be considered.

What alternative approaches could be considered?

54. The staff have identified a number of possible alternative approaches that could be considered for the EBIT subtotal. For each alternative, we would need to consider which entities would apply the alternative approach. There are two main ways in which this can be done:

(a) Require entities to assess which of the approaches (ie the approach for non-financial entities or the alternative approach) would provide more relevant information about their financial performance and apply that approach (disclosures about this assessment might be needed). This approach might include some guidance to help entities with that assessment, possibly similar to guidance on determining whether a by nature or by function analysis of expenses provides the most useful information.

(b) Define a subset of entities to whom the alternative approach would apply. The definition could, for example, focus on the primary profit driver of the entity being the difference between interest earned and interest paid. Defining a subset of entities is likely to be a complex exercise and may not work well for conglomerates.

55. In the description of alternative approaches, we have referred to entities to whom the alternative approach could apply as 'some financial entities'.

56. The possible alternative approaches identified by the staff are:

(a) require all entities to present an EBIT subtotal but permit some financial entities to exclude items from ‘I’ which they consider to be part of their main activities. This approach might include some guidance on when to exclude items and/or requirements for information to be disclosed about items that were excluded from ‘I’;

(b) require all entities to present an EBIT subtotal but define ‘I’ differently for some financial entities. For example, ‘I’ could be defined as including expenses relating to liabilities classified as regulatory capital. This approach assumes that a measure of EBIT would provide useful information, if appropriately defined, even though such a measure may not be used today. The approach would need to consider financial entities who are not subject to regulatory capital requirements but for whom EBIT as defined might not be useful, for example some investment companies:

(c) require a different commonly used subtotal for some financial entities. For example, this could be net interest income for banks.

(d) not require some financial entities to present an EBIT subtotal. This approach assumes that EBIT (however defined) would not provide useful information to users of financial statements of some financial entities and that, for those entities, not presenting a subtotal provides more useful information.

Questions for the Board

Question 2

(a) Does the Board have any comments or questions on staff’s preliminary analysis of alternative approaches to the EBIT subtotal for financial entities?

(b) Does the Board want staff to consider any other alternative approaches to EBIT for financial entities? If so, which approaches and why?

Income and expenses from the investments

Objective and tentative decisions for non-financial entities

57. Outreach with users suggests that there are some types of assets that users typically seek to value separately from the main activities of a non-financial entity (for example, investments in financial assets, associates and joint ventures, and investment properties). In order to provide information about the income and expenses arising from such assets separately from other income and expenses, the Board tentatively decided to require entities to present a category in the statement(s) of financial performance for income/expenses from investments. Income/expenses from investments would be presented above the EBIT subtotal.

58. The Board tentatively decided to:

    (a) 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'.

    (b) 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'.

Would the application of the Board's tentative decisions result in relevant information for financial entities?

59. The Board's definition of income and expenses from investments would capture many assets that financial entities consider part of their main activities. For example, the definition is likely to capture most financial assets, investment properties and other investments measured at fair value.

60. In defining income and expenses from investments, the Board sought to separately present the effect on profit or loss of transactions relating to assets that users value separately from the main activities of entity. The staff thinks the proposals for non-financial entities, without adjustment, would not meet the Board's intended objectives in the case of financial entities and thus would not provide relevant information to the users of financial statements of financial entities. The staff therefore think the proposals relating to income and expenses from investments should not apply to financial entities without adjustment.

What alternative approaches could be considered?

61. The staff have identified a number of possible alternative approaches that can be considered with respect to investing category. As with EBIT (see paragraph 54), for each alternative, we would need to consider which entities would apply the alternative approach. There are two main ways in which this can be done:

    (a) Require entities to assess which of the approaches (ie the approach for non-financial entities or the alternative approach) would provide more relevant information about their financial performance and apply that approach.

    (b) Define a subset of (financial) entities to whom the alternative approach would apply. The definition could, for example, focus on the main profit driver being a change in the value of the entity's assets, or the main business activity involving investing for capital growth, or a definition of investment companies.

62. In the description of alternative approaches, we have referred to entities to whom the alternative approach could apply as 'some financial entities'.

63. The staff have identified the following possible alternative approaches:

    (a) Require entities to present an income and expenses from investments category but permit some financial entities to exclude items which they consider part of their main activities from that category and present them further up the statement(s) of financial performance;

    (b) require entities to present an income and expenses from investments category but define it differently for some financial entities so that it excludes their main business activities. This approach assumes that the investing category could be defined in a way that results in relevant information and provides a faithful representation of the investing activities of those financial entities;

    (c) do not require some financial entities to present an income and expenses from investments category.

Questions for the Board

Question 3
(a) Does the Board have any comments or questions on staff's preliminary analysis of alternative approaches to income and expenses from investments for financial entities?
(b) Does the Board want staff to consider any other alternative approaches to income and expenses from investments for financial entities? If so, which approaches and why?

Statement of cash flows

Objective and tentative decisions for non-financial entities

64. The Board's tentative decisions on improvements to the statement of cash flows have focused on increasing comparability between entities by removing particular options currently set out in IAS 7 *Statement of Cash Flows*. Consequently, the Board has 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:

        (i) cash flows arising from interest paid should be classified as financing cash flows;

        (ii) cash flows arising from dividends paid should be classified as financing cash flows; and

        (iii) cash flows arising from interest and dividends received should be classified as investing cash flows.

    (b) 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'.

Would the application of the Board's tentative decisions result in relevant information for financial entities?

65. The staff assessment of the relevance of the Board's tentative decisions differs depending on the decision and on the type of financial entity:

(a) **Cash flows arising from interest paid are required to be classified as financing cash flows**—this might not result in relevant information for all financial entities as paying interest (often to customers) is typically considered an operating activity for some financial entities, such as banks. It could be relevant for other financial entities that do not pay interest to customers for example, investment property companies.

(b) **Cash flows arising from dividends paid are required to be classified as financing cash flows**—the function of dividends paid for financial entities is the same as for non-financial entities and thus the requirement would result in equally relevant information for all entities.

(c) **Cash flows arising from interest and dividends received are required to be classified as investing cash flows**—this might not result in relevant information for all financial entities as receiving interest would be considered an operating activity for a bank, and receiving dividends would be considered an operating activity for an investment entity.

(d) **Requiring a consistent subtotal as the starting point for the indirect reconciliation of cash flows from operating activities ('profit before investing, financing and income tax')**—In principle this could increase comparability but it will depend on the requirements for subtotals in the statement of financial performance for non-financial entities.

66. Because of the differences in assessment depending on the type of financial entity, the staff does not think that the proposals for statement of cash flows for non-financial entities could apply, without adjustment, to financial entities.

What alternative approaches could be considered?

67. The alternative approaches, if any, will depend on the Board's decision relating to the subtotals in the statement of financial performance. The staff will do further analysis and bring this topic for discussion after the Board decides on its approach to subtotals in the statement of financial performance for financial entities.

Question for the Board

Question 4

Does the Board have any comments or questions on staff analysis relating to the statement of cash flows for financial entities?

Appendix A Approach to financial entities in project areas that the Board has not yet discussed

A1. The following major issues are still outstanding and will be discussed by the Board in the coming months:

(a) addressing the feedback on Section 5 of the Discussion Paper *Disclosure Initiative—Principles of Disclosure*—Use of performance measures in the financial statements, including whether to define EBITDA, allow or require presentation or disclosure of infrequently occurring items, and allow or require use of columns in presenting financial performance;

(b) outstanding issues on subtotals in the statement(s) of financial performance —including a review of the categories, subtotals and labelling (for example, reviewing the decision not to use the term operating profit and the decision to present integral associates and joint ventures separately from non-integral associates and joint ventures);

(c) proposals to develop templates for financial statements, including the status and location of such templates;

(d) identifying minimum line items to present on the face of the statement of financial performance; and

(e) outstanding issues on aggregation and disaggregation of information.

A2. The staff have considered whether it would be useful to consider project proposals in these areas for all entities at the same time. Specifically, we assessed how likely it is that a single proposal could provide useful information for both financial and non-financial entities. The staff's assessment is as follows:

(a) Presentation and definition of EBITDA: This discussion is closely linked to the discussion on EBIT for which the staff has recommended to the Board to consider making adjustments to the proposals for financial entities. As such, the staff think it would be useful to consider EBITDA separately for financial entities, either at the same time or after the Board has made a decision on EBIT in relation to financial entities.

(b) Disclosure of information about unusual or infrequently occurring items: the notion of unusual and infrequently occurring items is common in all industries, including financial entities. Therefore, the staff think it would be useful to consider requiring all entities to provide such disclosures. The staff notes that adjustments to the proposals might be needed if the Board's tentative decisions in this area link to project areas in which financial entities might not be subject to the same requirements as non-financial entities.

(c) Templates: the Board's intention is to consider industry-specific templates and as such the staff think it would be useful to consider templates for financial entities at the same time as non-financial entities.

(d) The guidance on minimum line items will need to consider the different business activities of financial and non-financial entities.

(e) Further guidance on aggregation and disaggregation: consistent with staff preliminary analysis in paragraph 32 of this paper, we think the guidance on disaggregation could be equally useful for all entities and that all entities should therefore be considered together when discussing further proposals.