

Primary Financial Statements Project status and next steps

Accounting Standards Advisory Forum meeting

ASAF Agenda Paper 3
October 2021

Purpose of this session

Agenda ref 3

1. To provide an update to ASAF members on the discussion of the Board to redeliberate the proposals in the Exposure Draft.
2. To seek input from ASAF members on any implications of the Board's redeliberations so far.

Agenda Paper 3A for this meeting provides the summary of proposals, feedback received and tentative decisions.

Questions for ASAF members

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Given the Board's tentative decisions on the proposals to date, what **advice** do ASAF members have for the Board?

In particular: do ASAF members have any **suggestions** in approaching the remaining topics to be redeliberated given the tentative decisions so far?

Objective

- Improve communication in financial statements
- Focus on information included in the statement of profit or loss

Main proposals

- Profit or loss subtotals and categories
- Disaggregation
- Management performance measures

Project status

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- ✓ Operating profit or loss subtotal and operating category
- ✓ Requirement to identify MPMs
- ✓ Statement of cash flows

- ✓ Disaggregation principles and roles of primary financial statements and the notes
- ✓ Profit before financing and income tax and financing category
- ✓ Scope of MPMs

- ✓ Financing category, derivatives and hedging instruments and FX differences.

- Definition of MPM and disclosure requirements of MPM
- OPDA
- Follow up on disaggregation
- Initial discussion on analysis of operating expenses
- Initial discussion on JVs & associates



Redeliberations plan

Key factors considered in redeliberations planning

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Project objective and focus

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



Linkages between topics

Decisions on one topic may affect approach on another topic



Timeliness

Users want to see improvements as soon as possible



Efficiency

Use staff and Board time efficiently

General approach to redeliberations

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Priority topics

- Profit or loss subtotals and categories (except associates and joint ventures)
- Management performance measures (except scope)
- Disaggregation principles and roles of primary financial statements and the notes
- Statement of cash flows

Staged approach

- Minimum line items
- Analysis of operating expenses
- Unusual income and expenses
- Integral and non-integral associates and joint ventures
- Scope of management performance measures



Summary of redeliberations to date

Subtotals and categories

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What is confirmed from the ED?

- Requirement for operating profit or loss subtotal and profit before financing and income tax subtotal
- Definition of operating profit as a default category, includes, but is not limited to main business activities and includes volatile and unusual items
- Income and expenses to be excluded from operating: investing, financing, income tax and discontinued operations

What has changed?

- Classification of income and expenses from cash and cash equivalents from financing to the investing category
- Approach to classification of items in the financing category
- Default category for gains and losses from derivatives and hedging instruments changed from investing to the operating category
- Addition of undue cost or effort as a relief for FX classification

Remaining topics to be discussed

- Definition of income and expenses classified in investing category (including alignment with statement of cash flows)
- Classification by entities with particular main business activities
- Classification of JVs and associates

What is confirmed from the ED?

- Discussion of roles of primary financial statements and notes
- Principles of disaggregation – with refinements
- Not reinstate para 29 of IAS 1 requiring to separately present dissimilar items unless immaterial

What has changed?

- Include a reference to understandability in the description of the role of financial statements
- Emphasise that single dissimilar characteristic can be enough to disaggregate if it is material
- State the purpose of disaggregation more clearly and strengthen the application of disaggregation

Remaining topics to be discussed

- Minimum line items
- Unusual items
- Requirements for the presentation expenses either by nature or by function
- Specified and additional subtotals
- Guidance on the application of characteristics to aggregate or disaggregate items

What is confirmed from the ED?

- Requirement for disclosure of MPMs in financial statements
- Scope of MPMs would not be beyond the income and expense subtotals

What has changed?

- Addition to the scope of MPMs to include a subtotal of income and expense used in the numerator or denominator of a ratio, if that subtotal meets the definition of MPM

Remaining topics to be discussed

- MPM definition and requirements including public communications and faithful representation
- Disclosures including reconciliation, tax and non-controlling interests
- OPDA
- Interaction with other requirements
- Other proposals including columns

What is confirmed from the ED?

- Requirement of operating profit or loss subtotal as the starting point for the indirect method of reporting cash flows from operating activities
- Interest and dividends paid classified as financing activities, and dividends received classified as investing activities in the statement of cash flows

Remaining topics to be discussed

- Classification of interest received in the statement of cash flows
- Proposals relating to labelling of items of other comprehensive income
- Requirements carried over from IAS 1 *Presentation of Financial Statements*
- Amendments to other IFRS Standards; IFRS 12 *Disclosure of Interests in Other Entities*, IAS 33 *Earnings Per Share* and IAS 34 *Interim Financial Reporting*
- Transition provisions
- Effective date

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