

IASB[®] meeting

Project	Primary Financial Statements
Paper topic	Management performance measures and the scope of public communications
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Objective

1. This paper sets out the staff analysis of the feedback, and recommendations on the scope of ‘public communications’ used in the definition of management performance measures proposed in the Exposure Draft *General Presentation and Disclosures*. This paper should be read in conjunction with Agenda Paper 21B *Management performance measures—other aspects of definitions*.
2. This paper discusses feedback on the scope of ‘public communications’ used in the definition of management performance measures, adding detail to the discussion in [Agenda Paper 21H](#) of the December 2020 Board meeting.
3. Future papers will discuss other aspects of the proposals relating to management performance measures including:
 - (a) interaction of management performance measures with other requirements including:
 - (i) proposals for unusual income and expenses;
 - (ii) segment reporting;
 - (iii) other subtotals in the statement of financial performance;
 - (iv) earnings per share measures; and

- (v) measures excluded from being management performance measures;
and
- (b) disclosure requirements for management performance measures, including:
 - (i) the proposals relating to the reconciliation;
 - (ii) the requirement to disclose tax and non-controlling interests;
 - (iii) presentation restrictions such as the restriction on the use of columns;
and
 - (iv) whether specific guidance is needed for non-GAAP measures that are not management performance measures.

Summary of staff recommendations in this paper

- 4. The staff recommend the Board clarify in the application guidance that:
 - (a) when used as part of the definition of management performance measures, ‘public communications’ refers only to forms of written communication regularly provided in the periodic reporting process; and
 - (b) management performance measures relate to the same reporting period as the financial statements with the implications that:
 - (i) a performance measure that relates to interim financial statements but not the annual financial statements could only be a management performance measure in the interim financial statements;
 - (ii) an entity would only be required to review the public communications related to the reporting period to identify management performance measures; and
 - (iii) a management performance measure could only reflect transactions that have occurred in the reporting period to which they relate and therefore measures that include transactions that have not occurred in the period could not be management performance measure.

Structure of the paper

5. This paper is structured as follows:
 - (a) summary of the proposals in the Exposure Draft (paragraphs 6–9);
 - (b) feedback (paragraphs 10–15); and
 - (c) staff analysis and recommendations (paragraphs 16–41).

Summary of proposals in the Exposure Draft

6. The Exposure Draft proposed that an entity disclose ‘management performance measures’ in a single note to the financial statements. The Exposure Draft defined management performance measures as subtotals of income and expenses that:
 - (a) are used in public communications outside financial statements;
 - (b) complement totals or subtotals specified by IFRS Standards; and
 - (c) communicate to users of financial statements management’s view of an aspect of an entity’s financial performance.
7. Paragraph B79 of the Exposure Draft explains that only subtotals that management uses in public communications outside financial statements meet the definition of management performance measures and provides the examples of management commentary, press releases and investor presentations.
8. Paragraph BC156 of the Basis for Conclusions describes the Board’s reasons for including public communications in the definition of management performance measures. The Board’s view is that performance measures used in public communications outside the financial statements should be consistent with the performance measures disclosed in the financial statements because:
 - (a) it is hard to justify that a measure, in management’s view, communicates performance if an entity is not using it in communicating performance; and
 - (b) it would be confusing if one entity were to provide two sets of management-defined measures, one within and one outside the financial statements.

9. Paragraph BC157 explains that the Board considered defining management performance measures as all subtotals of income and expense included in an entity's annual report. The Board rejected such an approach because:
- (a) consistent with the feedback received in response to the Exposure Draft on proposed amendments to IFRS 8 *Operating Segments*, it may not be clear what constitutes an annual report; and
 - (b) management may include performance measures in an entity's annual report to comply with regulatory or other requirements.

Feedback

10. A few respondents explicitly said that they agreed with including reference to 'public communications' in the definition of management performance measures.
11. However, many respondents said they were concerned that the reference to 'public communications' was unclear or created too wide of a scope for the proposed requirements. These respondents said it would be challenging for an entity, and its auditor, to have to identify all public communications to find all management performance measures. For example, many said that the term public communications implied the inclusion of verbal statements, transcripts and social media posts. A few respondents said that the scope of the proposals was wider than that required by securities regulations. For example, some securities regulators specifically exclude verbal statements and transcripts from the scope of regulation.
12. Some respondents also asked whether an entity would be required to disclose non-GAAP measures that are:
- (a) not related to the current period but have been used in the past as management performance measures; or
 - (b) used outside of the financial statements after the release of the financial statements to which they relate.
13. Some respondents that agreed with including management performance measures in the financial statements said that defining management performance measures as those included in public communications prevented private entities from benefiting

from these proposals because they would not normally communicate financial information publicly.

14. Many respondents that raised concerns over the term public communications suggested approaches to restricting its scope:
 - (a) some suggested restricting public communications to those within the package of documents that contains the annual or interim financial statements;
 - (b) some suggested restricting public communications to those released at the same time as the financial statements and that relate to the period covered by the financial statements;
 - (c) a few suggested restricting public communications to communications regularly communicated by the entity; and
 - (d) one respondent suggested that the scope of public communications could be clarified by designating a function responsible for the entities public communications and defining the scope of public communications as communications regularly communicated by this function.

15. A few respondents suggested removing public communications from the definition of management performance measures and instead defining management performance measures as those measures used internally by management. Some of these respondents said that in their view measures used internally by management provide the most relevant information to users.

Staff analysis and recommendations

16. The analysis is structured as follows:
 - (a) response to the concern described in paragraph 11 that the reference to public communications is unclear or may create too wide of a scope (paragraphs 17–24);
 - (b) response to respondent’s questions described in paragraph 12(a) relating to the timing period of management performance measures public communications (paragraphs 25–28);

- (c) response to respondent’s questions described in paragraph 12(b) relating to the timing of public communications (paragraphs 29–35); and
- (d) Other stakeholder comments (paragraphs 36–41).

Clarification of the scope of public communications

Frequency of public communication

- 17. The staff agree that the scope of public communications could be clarified to reduce challenges to preparers of identifying, and to auditors of testing the completeness of, management performance measures.
- 18. In particular, the staff agree with those respondents that suggested that public communications should only capture those forms of communication that the entity **regularly** uses to communicate financial information with users. Entities communicate performance measures outside financial statements as part of the periodic reporting process to provide complementary information to that included in the financial statements. To communicate with users and comply with securities regulation, common practices have developed to establish commonly understood forms of communication where entities regularly report financial information about an entity, including performance measures. The specific names of documents used, and specific timings of publication may differ by jurisdiction but typically involve a combination of press releases, investor presentations, management commentary and regulatory filings relating to the financial statements.
- 19. In the staff’s view, the Board intended that the scope of public communications was these forms of public communication regularly reported by entities in the periodic reporting process. In this context the phrase ‘regularly provided’ refers to the forms of communication an entity uses for the communication of financial information related to the entity’s periodic reporting that have been established by:
 - (a) local regulations;
 - (b) common practice in its jurisdiction(s); or
 - (c) an entity’s past practice.

20. The staff acknowledge that judgement will still be required by entities and auditors to apply the proposed principle of communications being regularly provided in the periodic reporting process. However, in the staff's view, it is not expected that entities or auditors would need to incur substantial cost in identifying the scope of an entity's public communications applying the principle, because it is based on regular forms of communication. The principle can be applied across jurisdictions where the specific forms of communication may differ and as common practices for the communication of financial information outside the financial statements evolves over time.

Form of communications

21. In response to the concerns raised over the inclusion of verbal communications, the staff think that public communications should be limited to written communications. In many jurisdictions the forms of communication regularly provided in the periodic reporting process include verbal communications, for example investor calls relating to the period reporting. The staff agree that monitoring, controlling and auditing all verbal comments made in such presentations may be challenging for entities and auditors are unlikely to identify any additional management performance measures. The staff note that, generally, such presentations are accompanied by written communications, for example an investor information package or slide deck, that include the key information of the presentation, including measures of performance. Therefore, in the staff's view, the cost for an entity to monitor and control verbal communications and to have them audited would exceed the incremental benefit of including them in the scope of public communications.
22. Entities publicly communicate information through numerous forms of digital communication and new technologies and platforms continue to develop. The staff think that 'written communications' would include any form of communication including alphanumeric text. Hence, 'written communications', would apply to all types of digital communication used to report financial information where non-GAAP measures may be reported.
23. In response to respondent's concerns over the inclusion of social media posts in the scope of public communications, the staff do not think that a specific clarification is necessary. The term 'social media' does not refer to one specific form of

communication and is both diverse and evolving but is a form of digital communication. The staff think that the proposed principle of forms of written communications regularly provided in the periodic reporting process could be applied to social media.

24. In the staff's view, clarifying the scope of public communications would address the concerns raised by stakeholders regarding the scope of public communications. The staff recommend that the Board clarify in the application guidance that, when used as part of the definition of management performance measures, 'public communications' refers only to forms of written communication regularly provided in the periodic reporting process.

Question for the Board

Q1 Does the Board agree with the staff recommendation to clarify in the application guidance that, when used as part of the definition of management performance measures, 'public communications' refers only to forms of written communication regularly provided in the periodic reporting process?

Time period of management performance measures

25. As noted in paragraph 12(a), some respondents asked whether an entity would be required to disclose non-GAAP measures that are not related to the current period but have been used in the past as management performance measures.
26. The staff think that the period a performance measure relates to must be the same period as the financial statements in which it is included as a management performance measure. Management performance measures and the financial statements must relate to the same time period:
- (a) to meet the objective of having consistency between performance measures reported inside and outside the financial statements as discussed in paragraph BC156 of the Basis for Conclusions.
 - (b) for the management performance measures to complement the totals or subtotals specified by IFRS Standards. The staff have recommended in

Agenda Paper 21B of this meeting that ‘complements’ be removed from the definition of management performance measures. However, it would remain an objective of management performance measures that would be explained in the Basis for Conclusions.

- (c) to be consistent with the implication of the general requirements that only transactions that have occurred in the year are reported. This is implied by the requirement to identify the period covered by the financial statements, applying paragraph 18(c) of the Exposure Draft (carried forward from IAS 1).
27. The staff think clarifying that management performance measures relate to the same period as the financial statements would have the following practical implications:
- (a) a performance measure that relates to interim financial statements¹ but not the annual financial statements would only be included in the interim and not the annual financial statements.
 - (b) an entity would only be required to review the public communications related to the reporting period to identify management performance measures. However, if a management performance measure was disclosed in the financial statements of the previous period and ceases to be communicated, the proposed disclosure requirements to explain the effects of, and reasons for, a change in management performance measures would be applicable.
 - (c) a management performance measure would only include transactions that have occurred in the reporting period to which they relate. This would restrict measures that include transactions that have not occurred in the period—for example, a measure that includes profits from an acquired entity for the entire year instead of only profits from the date of acquisition.
28. The staff recommend that the Board clarify in the application guidance that, management performance measures relate to the same period as the financial statements in which they are included. Clarifying this timing should address stakeholder questions about the timing of public communications.

¹ The Exposure Draft proposes amending *IAS 34 Interim Financial Reporting* by adding paragraph 16A(m) requiring the disclosures about management performance measures in the interim financial statements.

Question for the Board

Q2 Does the Board agree with the staff recommendation to clarify in the application guidance that management performance measures relate to the same reporting period as the financial statements with the implications that:

- (a) a performance measure that relates to interim financial statements but not the annual financial statements could only be a management performance measure in the interim financial statements;
- (b) an entity would only be required to review the public communications related to the reporting period to identify management performance measures; and
- (c) a management performance measure could only reflect transactions that have occurred in the reporting period to which they relate and therefore measures that include transactions that have not occurred in the period could not be management performance measures?

Timing of publication of public communications

29. As noted in paragraph 12(b), some respondents asked whether an entity would be required to disclose non-GAAP measures that are published in public communications outside of financial statements after the release of the financial statements to which they relate.
30. The staff think that a measure communicated after the date when the financial statements are authorised for issue, but relating to the same reporting period, would not meet the definition of a management performance measure. If a non-GAAP measure has not been publicly communicated at the time the financial statements are authorised for issue it cannot meet the ‘used in public communications’ aspect of the definition of a management performance measure.
31. However, the staff expect it to be rare that performance measures would be reported in public communications after the date financial statements were authorised for issue that are not already reported in regular communications prior to that date. Entities are

motivated to provide such information to investors as quickly as possible. In practice non-GAAP information is normally reported in communications published on or before the publication of the financial statements for the period.

32. If a measure was first reported after the period end, we would expect the entity to also report the measure in public communications in subsequent periods, and as such be identified as a management performance measure for that period. Investors, auditors, and regulators would likely question measures that were repeatedly reported after the financial statements for the period were published and not disclosed in the financial statements as management performance measures.
33. The staff is aware that sometimes, public communications in the regular reporting process may be prepared on the same timeline and published on the same date as the financial statements for the period. In the staff's view, non-GAAP measures included in such communications would meet the definition of management performance measures. Management would be aware of these communications, having prepared them as part of the regular financial reporting process and any non-GAAP measures included would be available for audit on the same timeline as the financial statements.
34. The staff however does not agree with the suggestions made by some respondents to restrict public communications to the package of documents that contains the annual or interim financial statements or that are released at the same time as the financial statements. In the staff's view, the specific communications and the timing of public communications can vary. These differences can result in important communications such as preliminary earnings announcements or investor presentations being communicated publicly with different timing to the financial statements. Therefore, restricting public communications to the documents included with, or released at the same time as, the financial statements would scope out communications regularly used by entities to communicate performance measures outside the financial statements.
35. The staff therefore do not think there is a need for specific guidance or restrictions relating to timing of public communications with respect to the definition of management performance measures.

Question for the Board

Q3 Does the Board have any questions or comments regarding the timing of publication relating to ‘public communications’?

Other stakeholder comments*Applicability to private entities*

36. The staff agree that one of the practical consequences of including public communications in the definition of management performance measures may be that private entities may be prevented from benefiting from the proposals, as described in paragraph 13. The proposals would be expected to apply equally to private entities and do not specifically prevent them from having management performance measures. However, because private entities do not generally communicate financial information publicly, they would be less likely to have management performance measures. In the staff’s view, if there are no communications of information outside the financial statements there are no communications for the financial statements to be consistent with.
37. When a private entity communicates its financial information to the public, for example, publishing a document supporting the issuance of shares to the public, then it is likely to identify such measures as management performance measures.
38. As noted in paragraph 3(b)(iv), the question of whether specific guidance is needed for non-GAAP measures that are not management performance measures will be addressed in a future paper.

Defining management performance measures as those used internally by management

39. The staff disagree with the suggestion made by a few stakeholders that management performance measures be defined as those used internally by management (see paragraph 15). As explained in paragraph 8, the Board defined management performance measures as measures communicated publicly to help ensure consistency

between measures reported inside and outside financial statements. Changing the definition to refer to measures used by management would fail to meet this objective.

40. Management may use measures internally that are not communicated outside of the financial statements. For example, performance measures that are not publicly communicated may be used internally to determine management remuneration. Although in stakeholder outreach some users said that information about measures used for remuneration would be useful for evaluating stewardship, requiring its disclosure when it is not communicated outside the financial statements is beyond the objective of management performance measures, which is to provide transparency and discipline to measures already reported outside financial statements.
41. Management may communicate measures outside financial statements that are not used internally. In such cases, it would be important for users to understand why management is publicly communicating these measures when they are not used internally. However, if management performance measures are based on measures used internally, then measures that are only communicated externally would be excluded from the scope of management performance measures. Excluding measures that are only communicated externally and not used internally would mean the disclosure requirements in paragraph 106 of the Exposure Draft would not apply to these measures. In particular, explanation of why management communicates these measures that it does not use internally would not apply. Disclosures providing other aspects of transparency such as how the measures are calculated and how they reconcile to measures specified by IFRS Standards would also not apply.

Question for the Board

Q4 Does the Board have any questions or comments regarding:

- (a) the applicability of management performance measures to private entities; or
- (b) stakeholder suggestions on defining management performance measures as those measures used internally by management?