

STAFF PAPER

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IASB[®] meeting

Project	Primary Financial Statements	
Paper topic	Specified subtotals	
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Objective

1. This paper addresses stakeholders' feedback on the proposals in the Exposure Draft *General Presentation and Disclosures* for subtotals specified by IFRS Accounting Standards (referred to as 'specified subtotals'). This paper also presents the staff analysis on whether, in light of the tentative decisions on other topics in the project, the IASB should revise the list of specified subtotals proposed in the Exposure Draft.
2. This paper should be read in conjunction with the following papers that will be discussed at this meeting:
 - (a) Agenda Paper 21A *Unusual income and expenses*;
 - (b) Agenda Paper 21B *Entities with specified main business activities – associates and joint ventures*;
 - (c) Agenda Paper 21C *Investments in subsidiaries, associates and joint ventures*;
and
 - (d) Agenda Paper 21D *Classification of incremental expenses*.

Summary of staff recommendations in this paper

3. The staff recommend the IASB:
- (a) confirm the proposal that the specified subtotals listed in paragraph 104 of the Exposure Draft are not management performance measures;
 - (b) add ‘operating profit or loss and income and expenses from investments accounted for using the equity method’ to the list of specified subtotals in paragraph 104 of the Exposure Draft;
 - (c) confirm the examples of subtotals similar to gross profit listed in paragraph B78 of the Exposure Draft; and
 - (d) clarify in the application guidance that management performance measures can be reconciled to a specified subtotal regardless of whether or not the subtotal is presented in the statement of profit or loss.

Structure of the paper

4. This paper is structured as follows:
- (a) background (paragraphs 5–14):
 - (i) proposals in the Exposure Draft (paragraphs 7–10); and
 - (ii) feedback on the proposals in the Exposure Draft (paragraphs 11–14).
 - (b) staff analysis and recommendations (paragraphs 15–37):
 - (i) whether to confirm the proposal that specified subtotals are not management performance measures (paragraphs 16–24);
 - (ii) whether to add additional subtotals in paragraphs 104 and B78 of the Exposure Draft (paragraphs 25–34); and
 - (iii) reconciliation of management performance measures to specified subtotals (paragraphs 35–37).
 - (c) Appendix A– Extracts from the Exposure Draft.

Background

5. The Exposure Draft proposed disclosure requirements for management performance measures, which in light of the IASB’s tentative decisions are subtotals of income and expenses that:
 - (a) are not specified by the IFRS Accounting Standards;
 - (b) are used in public communications outside financial statements; and
 - (c) communicate to users of financial statements management’s view of an aspect of an entity’s financial performance.

6. The Exposure Draft also identified a list of subtotals that are not specified by IFRS Accounting Standards but are commonly used to communicate an entity’s financial performance and are well understood by the users of financial statements. The Exposure Draft proposed that these specified subtotals should not be considered management performance measures because the disclosure requirements that would otherwise apply would not provide any additional information that would be useful to the users of financial statements (see paragraph 10). The Exposure Draft also proposed that an entity could reconcile its management performance measures to the most directly comparable specified subtotal (see paragraph 7).

Proposals in the Exposure Draft

Disclosures required for management performance measures

7. Paragraph 106 of the Exposure Draft (see the appendix for the extract from the Exposure Draft) proposes disclosure requirements for management performance measures, including requirements to describe how a management performance measure is calculated and how it provides useful information about an entity’s performance. It also requires entities to provide a reconciliation between the management performance measure and the most directly comparable subtotal or total included in paragraph 104 of the Exposure Draft. Additionally, the tax and NCI effects for each reconciling item shall also be disclosed.

Specified subtotals

8. Paragraph 104 of the Exposures Draft states that:

Subtotals specified by IFRS Standards that are not management performance measures include:

- (a) a total or subtotal required by paragraphs 60 and 73;
- (b) gross profit or loss (revenue less cost of sales) and similar subtotals (see paragraph B78);
- (c) operating profit or loss before depreciation and amortisation;
- (d) profit or loss from continuing operations; and
- (e) profit or loss before income tax.

9. Paragraph B78 of the Exposure Draft describes subtotals that are similar to ‘gross profit’. It states that:

In accordance with paragraph 104(b) subtotals similar to gross profit are not management performance measures. A subtotal is similar to gross profit when it represents the difference between a type of revenue and directly related expenses incurred in generating that revenue. Examples include:

- (a) net interest income;
- (b) net fee and commission income;
- (c) insurance service result;
- (d) net financial result (investment income minus insurance finance expenses); and
- (e) net rental income.

10. Paragraphs BC170 and BC171 of the Basis for Conclusions on the Exposure Draft explains that some subtotals currently not specified by IFRS Accounting Standards are commonly used in the financial statements and are well understood by users of financial statements. Providing a reconciliation for such measures would not provide additional information because their purposes and relationship to totals or subtotals

specified by IFRS Accounting Standards are well understood and would usually be apparent from their presentation in the statement(s) of financial performance. Therefore, the IASB proposes to specify a list of subtotals that are not considered management performance measures, including gross profit or loss (revenue less cost of sales) and similar subtotals, operating profit or loss before depreciation and amortisation, profit or loss from continuing operations, and profit or loss before income tax. These subtotals would thus be specified by IFRS Accounting Standards and management performance measures could be reconciled to these subtotals.

Feedback on the proposals in Exposure Draft

11. The Exposure Draft did not have a specific question relating to the specified subtotals, but a few respondents commented on the proposal.
12. A few respondents, including standard-setting bodies, said that the IASB has followed a rules-based approach with respect to specified subtotals. These respondents suggested that the IASB should instead develop a principle that all entities can apply because there may be other subtotals commonly used within individual industries that are not included in the IASB’s list of specified subtotals. Further, a few respondents suggested replacing the proposed list of specified subtotals with a principle that subtotals presented in the statement of profit or loss in accordance with paragraphs 42 and 43 of the Exposure Draft are not management performance measures.¹
13. A few respondents, mostly users, suggested the IASB extend the disclosure requirements for management performance measures to specified subtotals. These users are of the view that although a reconciliation would not be necessary, the description of why these subtotals communicate management’s view of an aspect of the entity’s financial performance would be useful.

¹ Paragraph 42 of the Exposure Draft proposes that an entity shall present additional line items, headings and subtotals in statement(s) of financial performance when such presentations are relevant to an understanding of the entity’s financial performance.

These additional subtotals are subject to requirements listed in paragraph 43. These include the requirement for the subtotal to comprise line items made up of amounts recognised and measured in accordance with IFRS Accounting Standards (see the appendix for the extract from the Exposure Draft).

14. One respondent, an accounting network, commented that the IASB needs to clarify whether a management performance measure can be reconciled to a specified subtotal only if that subtotal is presented in the statement of profit or loss.

Staff analysis and recommendations

15. In this paper we analyse:
- (a) whether to confirm the proposal that specified subtotals are not management performance measures (paragraphs 16–24);
 - (b) whether to add additional subtotals in paragraphs 104 and B78 of the Exposure Draft (paragraphs 25–34); and
 - (c) the reconciliation of management performance measures to specified subtotals (paragraphs 35–37).

Whether to confirm the proposal that specified subtotals are not management performance measures

16. The staff recommend the IASB confirm the proposal that specified subtotals listed in paragraph 104 of the Exposure Draft are not management performance measures (see Approach A in paragraphs 17-19). The staff also considered but rejected replacing the list of specified subtotals with an approach that subtotals presented in the statement(s) of financial performance in accordance with paragraphs 42 and 43 of the Exposure Draft are not management performance measures (see Approach B in paragraph 20-24).

Approach A - Confirm the proposal in the Exposure Draft

17. The staff recommend the IASB confirm the proposal in the Exposure Draft because it provides specific relief to preparers from the disclosure requirements for management performance measures, but only when those requirements would not provide useful information. For example, the staff think that entities should not be required to describe how the specified subtotals communicate management’s view of an entity’s performance because the purpose of these subtotals is evident from their description and is well understood by the users of financial statements.

18. Further, withdrawing the proposal of specified subtotals might make it challenging for entities to reconcile management performance measures to the most directly comparable total or subtotal. In absence of the list of specified subtotals, entities would have fewer possible totals or subtotals to which a management performance measure could be reconciled. As a result, the underlying reconciliation may be difficult to prepare and hard to understand as it may contain several reconciling items.
19. The list of specified subtotals would only be updated, if necessary, as a result of a new requirement or an amendment to an existing requirement in IFRS Accounting Standards. Feedback received from stakeholders does not indicate that additional subtotals should be added at this time to the list of specified subtotals proposed in the Exposure Draft.

Approach B - Develop an alternative approach

20. The staff do not recommend developing the approach that a few stakeholders proposed (see paragraph 12) that subtotals presented in the statement(s) of financial performance in accordance with paragraphs 42 and 43 of the Exposure Draft are not management performance measures.
21. We acknowledge that such an approach could simplify the proposed requirements in the Exposure Draft. However, we think that this approach could result in the loss of useful information because an entity could present in the statement of profit or loss a management performance measure that is not commonly used or well understood. While it can be argued that a reconciliation may not be necessary for such a measure because their relationship to other totals and subtotals would be apparent from their presentation, we think that the description of why and how the measure communicates management's view of an entity's performance would be useful to the users of financial statements.
22. The staff also think approach B would require entities to disclose information that may not be useful to the users of financial statements. For example, under this approach, the subtotal 'operating profit or loss before depreciation amortisation and specified impairments' would be a management performance measure if not presented in the statement of profit or loss. The disclosures required by paragraph 106 of the Exposure Draft (see paragraph 7 of this paper) will result in additional costs for

preparers, and as explained in paragraph 17 of this paper, these disclosures are not likely to provide any additional information.

23. This approach may also encourage entities to present additional subtotals in the statement of profit or loss only to avoid the disclosures required for management performance measures. We acknowledge the fact that, applying paragraph 42 of the Exposure Draft with the changes tentatively agreed by the IASB in its redeliberations (see [Agenda Paper 21A](#) of the IASB's February 2022 meeting), additional subtotals can be presented only if they are necessary to provide an understandable overview of an entity's income and expenses. However, the assessment of whether a subtotal satisfies that criterion requires judgement. We think that if presenting additional subtotals would exempt entities from providing disclosures required for management performance measures, the underlying judgement may be subject to undue pressure.
24. Further, in Agenda Paper 21A of the September 2022 meeting, the staff recommend the IASB withdraw the proposal for disclosure of 'unusual income and expenses', in part because often the resulting information will be provided as part of the management performance measure disclosures. If the IASB agree with the staff recommendation in Agenda Paper 21A, approach B could reduce the level of information that would be provided for 'unusual income and expenses'. For example, under approach B a subtotal that excludes income and expenses that an entity identifies as 'unusual' or 'non-recurrent' would not be a management performance measure if it is presented in the statement(s) of financial performance. Consequently, no further disclosures on the unusual income and expenses would be required.

Question for the IASB

Q1 Does the IASB agree with the staff recommendation to confirm the proposal that specified subtotals listed in paragraph 104 of the Exposure Draft are not management performance measures?

Whether to add additional subtotals in paragraphs 104 and B78 of the Exposure Draft

25. This section of the paper presents staff analysis on whether:
- (a) an additional subtotal of ‘operating profit or loss and income and expenses from investments accounted for using the equity method’ should be added to the list of specified subtotals proposed in paragraph 104 of the Exposure Draft; and
 - (b) whether additional subtotals should be added to the examples of subtotals similar to gross profit proposed in paragraph B78 of the Exposure Draft.

Operating profit or loss and income and expenses from investments accounted for using the equity method

26. Paragraph 60 of the Exposure Draft proposed that an entity that has associates and joint ventures that are integral to its main business activities should present a required subtotal ‘operating profit or loss and income and expenses from integral associates and joint ventures’ in the statement(s) of financial performance. The entity might also use this subtotal to communicate its financial performance in its public communications outside the financial statements. However, the disclosures for management performance measures would not be required because the Exposure Draft proposed that it would be a required subtotal.
27. The IASB has tentatively decided to withdraw the proposal to require an entity to present such a subtotal and instead require an entity to present a line item ‘share of the profit or loss of associates and joint ventures accounted for using the equity method’ (see [Agenda Paper 21A](#) of the IASB’s October 2021 meeting). However, an entity with associates and joint ventures that are integral to its main business activities might present an alternative subtotal in the statement of profit or loss that adds ‘operating profit or loss’ and ‘income and expenses from associates and joint ventures accounted for using the equity method’. The entity could use this subtotal to communicate its financial performance in its public communications if it concludes that it is an important indicator of the entity’s financial performance. However, because it is not a required or specified subtotal, it would be a management performance measure.

Consequently, the entity would be required to disclose the information required by paragraph 106 of the Exposure Draft (see paragraph 7 of this paper).

28. The staff recommend the IASB retain the disclosure relief that would have resulted from the Exposure Draft proposals by including a subtotal that adds ‘operating profit or loss’ and ‘income and expenses from associates and joint ventures accounted for using the equity method’ to the list of specified subtotals in paragraph 104 of the Exposure Draft. The staff think if this subtotal is not included in the list of specified subtotals, the cost of providing the related disclosures required for management performance measures would likely outweigh the associated benefits. The specified subtotal would include income and expenses from all associates and joint ventures accounted for using the equity method, so if an entity used a subtotal that included only the income and expenses from selected associates and joint ventures, that subtotal would be a management performance measure.

29. Similar to the proposal in paragraph B38 of the Exposure Draft for ‘income and expenses from integral associates and joint ventures’, the specified subtotal would include:
 - (a) the share of profit or loss of associates and joint ventures accounted for using the equity method;
 - (b) impairment losses and reversals of impairment losses on associates and joint ventures accounted for using the equity method; and
 - (c) gains and losses on disposal of associates and joint ventures accounted for using the equity method.

30. In Agenda Paper 21D of the September 2022 meeting, the staff recommend the IASB withdraw the proposed requirement in the Exposure Draft for an entity to classify incremental expenses in the investing category. If the IASB does not agree with the staff recommendation in Agenda Paper 21D, it would need to consider whether incremental expenses in the investing category related to associates and joint ventures accounted for using the equity method will also form part of this proposed specified subtotal.

31. The staff recommend the IASB label the subtotal as ‘operating profit or loss and income and expenses from investments accounted for using the equity method’. The staff recommend using the term ‘investments’ in the label as it will also include income and expenses from subsidiaries accounted for using the equity method in accordance with *IAS 27 Separate financial statements*. Further, we have included the term ‘accounted for using the equity method’ because that makes it apparent from the label that the subtotal shall not include income and expenses from associates, joint ventures and subsidiaries that are not accounted for using the equity method.
32. Entities may use a different label such as ‘operating profit or loss and income and expenses from *associates and joint ventures* accounted for using the equity method’ if that label faithfully represents the income and expenses included in it.

Subtotals similar to gross profit

33. Given the IASB’s tentative decision that specified subtotals similar to gross profit are examples of important indicators of operating performance for entities with specified main business activities (see [Agenda Paper 21A](#) of the IASB’s March 2022 meeting), the staff considered whether to add additional examples of subtotals similar to gross profit in paragraph B78 of the Exposure Draft.
34. The staff recommend the IASB confirm the examples of subtotals similar to gross profit without including any additional examples because:
- (a) paragraph B78 of the Exposure Draft explains when a subtotal is similar to gross profit;
 - (b) the staff are not aware of similar subtotals, not included in paragraph B78 of the Exposure Draft, that are commonly used by entities with specified main business activities and are well understood by users of financial statements; and
 - (c) the examples of subtotals similar to gross profit in paragraph B78 of the Exposure Draft are not intended to be an exhaustive list.

Question for the IASB

Q2 Does the IASB agree with the staff recommendation:

- (a) to add ‘operating profit or loss and income and expenses from investments accounted for using the equity method’ to the list of specified subtotals in paragraph 104 of the Exposure Draft; and
- (b) to confirm the examples of subtotals similar to gross profit listed in paragraph B78 of the Exposure Draft.

Reconciliation of management performance measures to specified subtotals

35. The staff recommend the IASB clarify in application guidance that management performance measures can be reconciled to a specified subtotal regardless of whether or not the subtotal is presented in the statement of profit or loss.
36. This staff recommendation does not constitute a change from the Exposure Draft—it simply clarifies the IASB’s intentions that were implicit in the proposal of specified subtotals in the Exposure Draft. However, the staff agree with the stakeholder’s feedback (see paragraph 14) that without making the IASB’s intentions explicit it may be unclear whether a management performance measure can be reconciled to a specified subtotal that is not presented in the statement(s) of financial performance.
37. For example, an entity cannot present the specified subtotal ‘operating profit or loss before depreciation, amortisation and specified impairments’ in the statement of profit or loss if it uses the function of expense method to present its operating expenses. If the entity has a management performance measure such as EBITDA, ‘operating profit or loss before depreciation, amortisation and specified impairments’ may be the most directly comparable subtotal specified by IFRS Accounting Standards. Without making the IASB’s intentions explicit, it may be unclear if an entity can reconcile its management performance measure of EBITDA to ‘operating profit or loss before depreciation, amortisation and specified impairments’.

Question for the IASB

Q3 Does the IASB agree with the staff recommendation to clarify in the application guidance that management performance measures can be reconciled to a specified subtotal regardless of whether or not the subtotal is presented in the statement of profit or loss?

Appendix — Extracts from the Exposure Draft

- A1 **42** [IAS 1.85, 55] This [draft] Standard requires minimum line items and subtotals to be presented in the statement(s) of financial performance and the statement of financial position. An entity shall present additional line items (including by disaggregating required minimum line items), headings and subtotals in the statement(s) of financial performance and the statement of financial position when such presentations are relevant to an understanding of the entity's financial performance or financial position.
- A2 **43** [IAS 1.85A, 55A] When an entity presents additional subtotals in accordance with paragraph 42, those subtotals shall:
- (a) comprise line items made up of amounts recognised and measured in accordance with IFRS Standards;
 - (b) be presented and labelled in a manner that faithfully represents the line items that constitute the subtotal, making the subtotal clear and understandable;
 - (c) be consistent from period to period, in accordance with paragraph 33; and
 - (d) not be displayed with more prominence than the subtotals and totals required by IFRS Standards.
- A3 **106** An entity shall disclose information about any management performance measures in a single note to the financial statements. That note shall include a statement that the management performance measures provide management's view of an aspect of the entity's financial performance and are not necessarily comparable with measures sharing similar descriptions provided by other entities. In addition, for each management performance measure an entity shall disclose in the notes:
- (a) a description of why the management performance measure communicates management's view of performance, including an explanation of:

- (i) how the management performance measure is calculated;
and
 - (ii) how the measure provides useful information about the
entity's performance.
- (b) a reconciliation between the management performance measure
and the most directly comparable subtotal or total included in
paragraph 104;
 - (c) the income tax effect and the effect on non-controlling interests
for each item disclosed in the reconciliation required by
paragraph 106(b); and
 - (d) how the entity determined the income tax effect required by
paragraph 106(c).