
IASB® meeting

Date	March 2023
Project	Primary Financial Statements
Topic	Management performance measures—Relationship with the requirements of other IFRS Accounting Standards
Contacts	Paras Ali (pali@ifrs.org) Nick Barlow (nbarlow@ifrs.org) Roanne Hasegawa (rhasegawa@ifrs.org) Aida Vatrenjak (avatrenjak@ifrs.org)

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB® *Update*.

Objective

1. This paper analyses the relationship between the proposals in the Exposure Draft *General Presentation and Disclosures* for management performance measures and the requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 34 *Interim Financial Reporting*.
2. This paper should be read in conjunction with Agenda Paper 21D *Management performance measures – tax disclosures*. In Agenda Paper 21D we recommend the disclosure requirements in paragraph 108 of the Exposure Draft for changes in management performance measures also apply to changes to the calculation of the tax effects of reconciling items. The recommendation in this paper to revise those requirements would therefore also apply to those disclosures (see paragraphs 17–24).

Summary of staff recommendations in this paper

3. Considering the relationship between the proposed requirements in the Exposure Draft for management performance measures and the requirements in IAS 8, we recommend the IASB:
 - (a) confirm the proposed disclosure requirements in paragraphs 108(a) and 108(b) of the Exposure Draft that if an entity changes the calculation of its management performance measures, introduces a new management performance measure or removes a previously disclosed management performance measure from its financial statements, it shall:
 - (i) disclose sufficient explanation for users of financial statements to understand the change, addition or removal and its effects; and
 - (ii) disclose the reasons for the change, addition or removal;
 - (b) amend the proposed disclosure requirement in paragraph 108(c) of the Exposure Draft so that if an entity introduces a new management performance measure or changes an existing management performance measure, it need not provide the comparative information for the new or changed management performance measure if it is impracticable to do so;
 - (c) add a requirement that if an entity does not provide comparative information about a new or changed management performance measure because it is impracticable to do so, the entity shall disclose the reason for not providing the comparative information for management performance measures; and
 - (d) clarify that the choice of a management performance measure, including how it is calculated, is not an accounting policy as defined in IAS 8.
4. In relation to IAS 34 we recommend the IASB:
 - (a) confirm the consequential amendment to IAS 34 proposed in the Exposure Draft to require in interim financial reports the management performance measures disclosures required by paragraph 106 of the Exposure Draft; and

- (b) expand the proposed amendment to IAS 34 to include in the list of other disclosures required by paragraph 16A, the requirements of paragraph 108 of the Exposure Draft that apply when there are changes to an entity's management performance measures.

Structure of this paper

- 5. This paper is structured as follows:
 - (a) relationship with the requirements in IAS 8 (paragraphs 6–29);
 - (b) management performance measures requirements in interim reports (paragraphs 30–51); and
 - (c) Appendix — Extracts from the IFRS Accounting Standards.

Relationship with the requirements in IAS 8

- 6. This section addresses stakeholders' comments on the relationship between the proposal to require entities to provide comparative information for new or amended management performance measures and the requirements in IAS 8.

Background

Proposals in the Exposure Draft

- 7. Paragraph 108 of the Exposure Draft proposes that if an entity changes the calculation of its management performance measures, introduces a new management performance measure or removes a previously disclosed management performance measure from its financial statements, it shall:
 - (a) disclose sufficient explanation for users of financial statements to understand the change, addition or removal and its effects;
 - (b) disclose the reasons for the change, addition or removal; and

-
- (c) restate its comparative information, including in the required note disclosures, to reflect the change, addition or removal.
8. Paragraph BC147 of the Basis for Conclusions to the Exposure Draft explains that one of the concerns raised by users of financial statements about the quality of disclosures provided for performance measures is that, in some cases, these measures are reported inconsistently from period to period.
9. Paragraph BC174 of the Basis for Conclusions to the Exposure Draft explains that comparability from period to period would be enhanced by providing information about changes in management performance measures.

Feedback on the proposals in the Exposure Draft

10. Only some respondents commented on the proposed requirement to disclose changes to a management performance measure. Of those who commented, some respondents, particularly users, agreed with the proposed requirement to disclose changes to a management performance measure, including an explanation of and the reasons for the change and a restatement of comparative information.
11. These respondents suggested that the proposed requirement was essential to compare measures for a particular entity over time. When management performance measures are changed, it is critical to understand those modifications as well as the reason behind them. These respondents also commented that the disclosure requirements would help prevent frequent changes to management performance measures which might be designed to show performance in a more favourable light.
12. A few respondents, mostly preparers, disagreed with the proposed requirement to restate information for the comparative period when a management performance measure is changed, added or removed. These respondents said that in cases where the measure had changed because of changes in business, restating the comparative period would not result in useful information. Different businesses in the current and comparative periods might require different management performance measures.

Some of these respondents were also concerned that retrospective application of the changes to management performance measures might be costly to implement.

13. A few respondents stated that it was unclear whether a change in management performance measures is a change in accounting policy.

Summary of related tentative IASB decisions and discussions from its redeliberations to date

14. At its November 2021 meeting, the IASB redeliberated aspects of its preliminary views on improving the disclosure requirements in IFRS 3 *Business Combinations* (The Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* sets out the IASB’s preliminary views on this matter). While deliberating [Agenda Paper 18B](#) on contributions of an acquired business, the IASB tentatively decided to specify the basis that an entity applies in preparing the ‘pro forma’ information as required by paragraph B64(q)(ii) of IFRS 3 is an accounting policy in accordance with IAS 8. Hence, the ‘pro forma’ information is subject to the general requirements of disclosures of material accounting policies in accordance with paragraph 117¹ of IAS 1 *Presentation of Financial Statements* (see Appendix).
15. During that meeting, the IASB also discussed but was not asked to make any decisions on whether a link was necessary between accounting policies as defined by IAS 8 and the disclosure requirements for management performance measures given that the disclosures for management performance measures and the pro forma information may seem to have some similarities. One IASB member said that management performance measures were different from pro forma information because management performance measures come from communications outside the financial statements. Another IASB member said it was important to have disclosure requirements specifically for management performance measures to ensure complete

¹ The Exposure Draft proposed to carry forward paragraph 117 of IAS 1 as paragraph 27A of the proposed amendments to IAS 8 including any subsequent amendments made to paragraph 117 of IAS 1 as a result of the *Disclosure of Accounting Policies: Amendments to IAS 1 and IFRS Practice Statement 2* issued on 12 February 2021.

transparency over measures which may apply accounting policies that are not in accordance with IFRS Accounting Standards.

Staff analysis and staff recommendations

16. The staff analysis is structured as follows:
- (a) proposed disclosures for changes in management performance measures (paragraphs 17–24); and
 - (b) whether the choice of a management performance measure is an accounting policy (paragraphs 25–29).

Proposed disclosures for changes in management performance measures

17. We think that the proposed requirement that an entity shall provide the reason and sufficient explanation for a change, addition or removal of a management performance measure, will enhance the transparency and comparability of management performance measures. This view is consistent with the feedback received, particularly from users, that said, it is critical to understand how and why management performance measures have changed. Hence we recommend the IASB confirm the proposed requirements in paragraphs 108(a) and 108(b) of the Exposure Draft.
18. We also think that the proposal to provide comparative information for new or changed management performance measures will make them more comparable over time and will provide useful information. Further, users also supported the proposed requirement. However, considering the feedback received from preparers and based on the staff analysis below, we recommend the IASB amend the proposed requirement in paragraph 108(c) of the Exposure Draft so that an entity need not provide the comparative information if it is impracticable to do so.
19. We acknowledge the concerns of stakeholders that said providing comparative information for changes in management performance measures might be costly to

implement. However, we think such costs are not likely to be significant as the Exposure Draft only requires disclosure of the comparative period and not beyond that.

20. A few stakeholders said that providing comparative information may not result in useful information in the case of a change in business in the current reporting period (see paragraph 12). We acknowledge that in such cases, the comparative information may not necessarily reflect management's view of an entity's financial performance in the previous reporting period. However, we think the comparative information would still provide useful information. For example, comparative amounts for a new or changed management performance measure because of a change in business would help users understand the impact that the change in business had on a particular measure of performance in comparison to the previous reporting period.
21. We, however, understand that there may be instances where it is impracticable² to provide the comparative information. For example, an entity may not have collected the data in the prior period in a way that would allow it to provide the comparative information. We think that in such instances, entities would benefit if the IASB provides a disclosure exemption, that is, if an entity introduces a new management performance measure or changes an existing management performance measure, it need not provide the comparative information for the new or changed management performance measure if it is impracticable to do so.
22. If the IASB agrees to provide the exemption in paragraph 21, we think that requiring entities to also disclose the reason for not providing the comparative information, ie the fact that an entity has applied the impracticability criterion, would provide useful information. For example, without such a disclosure, users might not be able to identify that the effects of a changed management performance measure have not been

² Paragraph 7 of IAS 1 (carried forward unchanged in Appendix A of the Exposure Draft) defines impracticable—'Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so'. Paragraphs 5 and 50–53 of IAS 8 provides additional guidance on when it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error for a particular prior period.

incorporated in the comparative information and, hence, it is not entirely comparable with the current reporting period.

23. We note that such a disclosure requirement would be consistent with the general disclosure requirement in paragraph 42(a) of IAS 1 (carried forward unchanged in paragraph 41(a) of the Exposure Draft) for an entity to disclose the reason for not classifying comparative amounts when it is impracticable to do so.
24. Consequently, we recommend the IASB:
- (a) confirm the proposed disclosure requirements in paragraphs 108(a) and 108(b) of the Exposure Draft that if an entity changes the calculation of its management performance measures, introduces a new management performance measure or removes a previously disclosed management performance measure from its financial statements, it shall:
 - (i) disclose sufficient explanation for users of financial statements to understand the change, addition or removal and its effects; and
 - (ii) disclose the reasons for the change, addition or removal;
 - (b) amend the proposed requirement in paragraph 108(c) of the Exposure Draft so that if an entity introduces a new management performance measure or changes an existing management performance measure, it need not provide the comparative information for the new or changed management performance measure if it is impracticable to do so; and
 - (c) add a requirement that if an entity does not provide comparative information about a new or changed management performance measure because it is impracticable to do so, the entity shall disclose the reason for not providing the comparative information for management performance measures.

Questions for the IASB

1. Does the IASB agree with the staff recommendation in paragraph 24?

Whether the choice of a management performance measure is an accounting policy

25. A few respondents sought clarification on whether a change in a management performance measure is a change in accounting policy. The IASB's tentative decision in November 2021 (see paragraphs 14–15) also indicates it might be useful to consider whether, the disclosure of management performance measures is an accounting policy in accordance with IAS 8 (see paragraph 28).
26. We acknowledge that the calculation of management performance measures can be similar to an accounting policy as defined by IAS 8—the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. However, the choice of a management performance measure, including its calculation, is a broader notion than an accounting policy as defined in IAS 8. An entity sets its accounting policies, within the constraints of IFRS Accounting Standards, for its *financial statements*, not for communication outside the financial statements.
27. Further, the IASB sets requirements for accounting policies in the context of the financial statements, not in the context of the entity's communications outside the financial statements. The IASB cannot set requirements for how an entity chooses its management performance measures, because they are measures that are communicated outside the financial statements. For example, the IASB cannot require an entity to apply to management performance measures the requirement in paragraph 14(b) of IAS 8 (see Appendix) for an entity to change an accounting policy only if doing so results in more relevant information.
28. Management performance measures differ from the pro forma information that entities are required to provide in the financial statements applying IFRS 3. The information required by IFRS 3 is information that *the IASB* requires to be in the financial statements. Management performance measures are measures *an entity* decides to use in public communications—the IASB requirement to disclose

information about the management performance measure only applies after the entity has made its decision about what is a management performance measure.

29. Accordingly, we recommend the IASB clarify that the choice of a management performance measure, including how it is calculated, is not an accounting policy as defined in IAS 8.

Questions for the IASB

2. Does the IASB agree with the staff recommendation to clarify that the choice of a management performance measure, including how it is calculated, is not an accounting policy as defined in IAS 8?

Management performance measures requirements in interim reports

30. This section responds to feedback on the IASB's proposals in the Exposure Draft to require in interim financial statements the same disclosures for management performance measures as required in the annual financial statements. The section is structured as follows:
- (a) background:
 - (i) proposals in the Exposure Draft (paragraphs 31–35);
 - (ii) feedback on the proposals in the Exposure Draft (paragraphs 36–38);
 - (b) staff analysis and recommendations:
 - (i) consequential amendment to IAS 34 proposed in the Exposure Draft (paragraphs 40–47); and
 - (ii) relationship between disclosures in interim financial reports and accounting policies (paragraphs 48–51).

Background

Proposals in the Exposure Draft

31. Paragraph 16A of IAS 34 includes a list of other disclosures required to be disclosed in interim financial reports. The disclosures are required to be given either in the notes to the interim financial statements or elsewhere in the interim financial report. The disclosures can be incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. The Exposure Draft proposed a consequential amendment to paragraph 16A of IAS 34 to include the disclosure requirements for management performance measures in paragraph 106 of the Exposure Draft.
32. Paragraph BC220 of the Basis for Conclusions for the Exposure Draft explains that some users of financial statements requested that information about management performance measures be disclosed in the notes to all interim financial reports, including when entities present a set of condensed financial statements. Such disclosures would allow users to better understand management performance information released at the same time as the interim financial report. Requiring information about management performance measures in interim financial reports would provide users with transparent information about management performance measures and allow them to analyse all aspects of an entity's performance on a timely basis.
33. Paragraph BC221 of the Basis for Conclusions for the Exposure Draft explains that consistent with the objective of condensed interim financial reports an entity would not need to duplicate previously reported information about management performance measures—for example, information about why management thinks a management performance measure communicates aspects of the entity's financial performance.

-
34. Paragraph BC222 of the Basis for Conclusions for the Exposure Draft explains that in response to concerns of some preparers of financial statements regarding the costs of preparing the disclosure of the income tax and non-controlling interest effects of reconciling items between the management performance measure and the subtotals specified by IFRS Accounting Standards, the IASB considered not requiring this disclosure in condensed financial statements.
35. However, it rejected this approach because omitting this information from condensed financial statements could undermine the usefulness of the management performance measure disclosures. The IASB noted that its proposed requirements for determining the tax effect of management performance measure adjustments should reduce the costs of providing this information.

Feedback on the proposals in the Exposure Draft

36. Only one stakeholder commented on requirements for management performance measures in interim financial reports in their comment letter on the Exposure Draft. This stakeholder said that, in their view, entities should not be required to always provide all proposed disclosures about management performance measures in the interim financial reports if they have not changed since the most recent annual financial statements. In their view, disclosing only the reconciliations to the most directly comparable subtotals or totals specified by IFRS Accounting Standards could provide sufficient information about management performance measures in condensed financial statements prepared applying IAS 34, without the need for additional disclosures.
37. During targeted outreach, in one outreach event with users, participants commented generally on requirements for interim financial reports. These participants said that in their view the IASB should avoid detailed requirements that can only be applied to the annual financial statements. These participants said that having disclosures in the interim financial reports was important because it provides more timely and therefore more useful information than disclosure in the annual financial statements alone. They

prefer simple requirements that can be applied in both interim and annual financial statements.

38. During targeted outreach, a few participants said that providing the information on tax effects of reconciling items in interim financial reports would result in additional costs.

Staff analysis and staff recommendations

39. The staff analysis is structured as follows:
- (a) consequential amendment to IAS 34 proposed in the Exposure Draft (paragraphs 40–47); and
 - (b) relationship between disclosures in interim financial reports and accounting policies (paragraphs 48–51).

Consequential amendment to IAS 34 proposed in the Exposure Draft

40. We think that the IASB should confirm the consequential amendment to IAS 34 proposed in the Exposure Draft to require management performance measures disclosures in interim financial reports. We think that transparency over management performance measures is important in the interim financial reports because it is common for entities to include management defined measures related to the interim period in public communications outside the interim financial statements.
41. We think an entity would not need to repeat disclosures unchanged from the annual financial statements as was the concern of one respondent (see paragraph 36). Paragraph 15A of IAS 34 states that:

A user of an entity's interim financial report will have access to the most recent annual financial report of that entity. Therefore, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual financial report.

-
42. The limited feedback from users was supportive of including disclosures in interim financial reports more generally (see paragraph 37). This feedback is consistent with the feedback the IASB based the proposal in the Exposure Draft on.
 43. We acknowledge the comments of a few stakeholders that disclosing the tax effects of reconciling items in interim financial reports would result in additional cost (see paragraph 38). However, we think that the benefit of the disclosures continues to outweigh the costs, as the IASB concluded in the Basis for Conclusions for the Exposure Draft (see paragraph 35).
 44. Applying systems and processes to gather information on such tax effects in the interim period will be an additional cost for entities that do not provide such information. However, the IASB has tentatively decided to revise the method an entity uses to calculate the tax effects of reconciling items to include a simplified approach intended to reduce the cost of providing this disclosure.
 45. In Agenda Paper 21D of this meeting we recommend the IASB retain this simplified approach and allow entities to use a wider range of approaches to the calculation. We think the methods permitted for calculating the tax on reconciling items would apply to interim financial statements including the disclosure requirements when changes to the approach used to calculate the tax effect are made (see paragraph 49).
 46. Paragraphs 28–36 of IAS 34 also provide guidance on applying annual accounting policies to interim financial reports. We have recommended that the choice of a management performance measure, including how it is calculated, is not an accounting policy as defined in IAS 8 (see paragraph 29). However, we still think that the illustration in paragraph 30(c) of IAS 34 of how an entity would apply its accounting policy for income taxes equally provides guidance on how an entity calculates the tax effects of reconciling items in interim financial reports.
 47. We recommend that the IASB confirm the consequential amendment to IAS 34 proposed in the Exposure Draft to require the management performance measures disclosures in interim financial reports.

Relationship between disclosures in interim financial reports and accounting policies

48. If the IASB agrees with the staff recommendation in paragraph 29 of this paper that the choice of a management performance measure, including how it is calculated, is not an accounting policy as defined in IAS 8, there are potential consequences for the requirements for interim reporting in IAS 34—there is a risk that an entity may conclude it is not required to apply consistent bases for its management performance measures between annual and interim financial reports. We think that clarifying the related requirements for management performance measures in IAS 34 would help avoid the unintended consequences.
49. Paragraph 28 of IAS 34 requires an entity to apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements. If the requirements in IAS 8 for accounting policies were applicable to management performance measures this would mean the basis for an entity's management performance measures disclosures would need to be consistent with the disclosures in the previous annual financial statements or those to be included in the subsequent annual financial statements. For example, how an entity calculates a management performance measure, or the method used to calculate the tax effects of reconciling items would be required to be consistently applied.
50. Paragraph 108 of the Exposure Draft requires an entity to disclose information about changes to the calculation of management performance measures (see paragraph 7). However, the consequential amendment to IAS 34 proposed in the Exposure Draft did not propose adding this requirement to the list of disclosures required in interim financial reports. We think that doing so would:
- (a) mitigate the risk of changes in the calculation of management performance measures between interim and annual financial statements as any changes from the previous period would require disclosure of the change, the reason for

the change and comparative information providing transparency over what has changed; and

- (b) if there were such changes, provide information to help users understand the changes.

51. We recommend that the IASB expand the proposed amendment to IAS 34 to include in the list of other disclosures required by paragraph 16A, the disclosure requirements of paragraph 108 of the Exposure Draft that apply when there are changes to an entity's management performance measures.

Questions for the IASB

3. Does the IASB agree with the staff recommendations to:
- (a) confirm the consequential amendment to IAS 34 proposed in the Exposure Draft to require in the interim financial reports the management performance measures disclosures required by paragraph 106 of the Exposure Draft; and
 - (b) expand the proposed amendment to IAS 34 to include in the list of other disclosures required by paragraph 16A, the requirements of paragraph 108 of the Exposure Draft that apply when there are changes to an entity's management performance measures?

Appendix — Extracts from the IFRS Accounting Standards

- A1. This appendix includes relevant extracts from each of the IFRS Accounting Standards discussed in this paper, which include:
- (a) Paragraph 14 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
 - (b) Paragraph 117 of IAS 1 *Presentation of Financial Statements*.

Extract from IAS 8

14. An entity shall change an accounting policy only if the change:
- (a) is required by an IFRS; or
 - (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

Extract from IAS 1

117. An entity shall disclose material accounting policy information. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.